

PROPOSED MARKING GUIDE

ECONOMICS P220 / 1

SECTION A 40 MARKS

- (a) (i) Price mechanism is a system in a free market economy where prices and resource allocation are determined by the interplay of market forces of demand and supply. (1 mark)

(ii) Merits of the price mechanism are:

- Encourages production of better quality goods and services.
- Increases efficiency in the allocation of resources.
- Promotes hard work and personal initiative.
- Reduces government expenditure in provision of goods and services.
- Encourages technological development / innovations and creativity.
- Increases economic growth / output. / resource utilisation
- Encourages flexibility in production / it reduces bureaucracy.
- Facilitates income distribution./ reduces income inequality
- Widen consumer choice.
- Promotes consumer sovereignty.
- More employment opportunities are created.
- Encourages development of entrepreneurial skills.
- It encourages arbitrage in an economy.
- Determines what to produce.
- Determines where to produce.
- Determines when to produce.
- Determines how to produce.
- Determines for whom to produce.

Any 3 x 1 = 3 marks

- (b) (i) Income inequality is:

- The un even distribution of wealth or income among individuals where the few are rich or the majority are poor. Or it is the disproportionate distribution

of wealth or income among citizens where the majority are poor while few are rich. (1 mark)

(ii) Demerits include the following:

- Leads to low government revenue.
- Rural urban migration is encouraged together with its associated disadvantages.
- Reduces aggregate demand in an economy.
- Leads to high crime rates.
- Leads to brain drain.
- Discourages investments.
- Makes government unpopular / Political instabilities
- Leads to high levels of exploitation of the poor.
- Leads to low savings.
- Creates social and economic class divisions.
- Worsens balances of payments problems
- Leads to misallocation of resources.
- Leads to high population growth rate.
- Increases dependency burden.
- It leads to underdevelopment and under utilization of available infrastructure.
- It makes the poor to lose hope.

Any 3 x 1 = 3 marks

(c) Merits of export promotion industries include:

- Creates many employment opportunities.
- Expansion of market for local manufactured products.
- Improves international relations among countries / creates friendship among countries.
- Produces better quality goods.
- Diversifies the economy.
- Increases foreign exchange earnings. / improves B.O.P
- Improves terms of trade.

- Encourages development of infrastructure.
- Increases government revenue.
- Encourages exploitation of local resources.
- Increases output / increase in economic growth.
- Encourages technological development.
- Leads to development of modern technology.

Any 4 x 1 = 4 marks

- (d) (i) Collective bargaining is a method used by trade unions which involve round table talks / discussion negative / discussions between representatives from trade unions and employers with an aim of resolving workers' grievances. / working conditions

1 mark

- (ii) Methods used by trade unions to negotiate for improvement in the welfare of workers

include:-

- Kidnaping or abducting key officials or some of their officials.
- Boycotting / decampaigning / media wars or sabotage by workers.
- Go slow method or tactic.
- Collective bargaining.
- Picketing.
- Go on a violent strike.
- Sit down strike.
- Go slow.
- Go on a peaceful demonstration.
- Seek industrial arbitration or mediation

- Closed shop.

Any 3 x 1 = 3 marks

- (e) (i) Private finance refers to incomes or revenue earned by individuals or organizations and how it is spent to maximize their private benefits or objectives (1 mark)

while public finance is a branch of macro economics that deals with how government raises revenue and how that revenue is spent on various programmes to achieve development objectives.

(1 mark)

(ii) Objectives of public finance.

- To reduce income inequality.
- To reduce regional imbalances.
- To raise government revenue.
- To control inflation.
- To protect local industries.
- To improve BOP position.
- To promote production hence economic growth.
- To influence investment.
- To reduce external dependence.

Any 2 x 1 = 2 marks

SECTION B

2. (a) Significance of National Income statistics:

Hint: Uses or importances needed NOT reasons for calculating National Income.

- Used in calculating per capita income
- Helps in determining the rate of economic growth in an economy
- Used in planning or for research and economic analysis
- Used to compare the standard of living of people among countries
- Used to compare the standard of living of people in a country over time

- Used to show the extent to which an economy is dependent to other countries
- Used by countries to solicit for foreign assistance
- Helps to show the expenditure patterns in a country
- It identifies the leading and lagging sectors/ It is used to show the performance of each sector in the economy
- It stimulates the investment
- Helps to compare economic performance over time
- Shows the levels of resource exploitation
- It shows income distribution

(8x1= 8 marks)

(b) The following are the statistical problems faced when compiling National income statistics in

developing countries:

- Inadequate data/limited information
- Problem of determining the production boundaries
- Difficulty in valuing unpaid for services and self-services
- Problem of double counting
- Problem of determining net factor income from abroad
- It is difficult to determine the value of depreciation of capital which makes it difficult to determine NNP/NDP
- Problems of distributing intermediate and finished goods
- It is difficult to determine/ value government expenditure / government output
- Problem of price fluctuations/changes in prices in the year
- It is difficult to determine the exact value of subsistence output (Non-monetary output)
- The problem of timing the production period/difficulty in valuing work still in progress / inventories
- Problem of illegal activities like prostitution, smuggling of goods, drug trafficking etc
- Shortage of skilled labour/ statisticians / limited skilled personnel
- Use of poor facilities/equipment or limited facilities

- Problem of errors of omission and commission
(6x2=12 marks)

3. Factors that lead to rise of monopoly in an economy are:

- Provision / possession of patent rights and copy rights.
- Acts of parliament, government decrees, statutes or ordinances.
- High or huge initial capital requirements.
- Long distance between firms producing related commodities / long distance between rival firms.
- Exclusive ownership and control of basic raw materials.
- Exclusive possession of technology needed in production of a given product.
- Merging of firms / takeovers.
- Long periods of training and apprenticeship.
- Possession of unique talents.
- Small market size.
- Protectionism by countries.
- Limit pricing.

(b) Measures to reduce the effects of private monopoly firms include;

Strictly ideas should be suggested using "Should", "Can", "May", Use of commanding statements should be accepted.

Future tens

- Should adopt Maximum price legislation/fix Maximum prices
- Impose taxes on Monopoly firms (Lump sum taxes, specific or profit taxes) to reduce monopoly profits
- Set production quotas to reduce excess capacity
- Enact or enforce anti-trust laws anti – monopoly laws
- Establish public enterprises to compete with existing private monopoly firms
- Nationalise private monopoly firms producing essential products
- Reduce the period /duration of patent rights or copy rights

- License and provide capital to new firms to compete with the existing firms
- Subsidise existing inefficient firms to avoid closure so as to create monopoly
- Lift restrictions on international trade
- Strengthen the National bureau of Standards to avoid production of poor quality goods
- Encourage formation of consumer co-operative societies or Consumer associations
- Widen market
- Develop infrastructure to reduce spatial monopoly
- Liberalise the economy

(6x2=12 marks)

4. Benefits of economic growth include:

No use of past tense

- Increases government revenue by imposing taxes on many economic activities.
- Improves balance of payments position.
- Reduces external dependence.
- Creates more employment opportunities.
- Reduces income inequality.
- Allows workers to have more time for leisure.
- Makes the government in power popular.
- Increases the utilization of the available natural resources.
- Encourages development of modern infrastructure.
- Improves labour skills.
- Reduces inflation.
- Reduces conservatism.
- Leads to industrialization.
- Provides a variety of goods to consumers which increases consumer choice.
- Improves technology.
- Encourages provision of assistance to others ie. Emergency of charitable activities.

Any 10 x 1 = 10 marks

(b) Causes of low economic growth in developing countries include:

- Limited investment incentives provided to investors. / poor government policy
- Limited market size.
- High population growth rate.
- Poor state of infrastructure.
- Poor state of technology used in production.
- Small capital stock.
- Limited labour skills.
- Limited entrepreneur skills.
- High level of subsistence production / low levels of commercial production.
- Low level of savings.
- Low level of accountability / corruption or embezzlement of funds.
- Low level of exploitation of the available natural resources.
- Poor land tenure system.
- High capital out flow or low capital in flow.
- Poor attitude towards work
- High levels inflation / instability in prices
- High levels of conservatism.
- Low level of industrialisation
- Limited diversification in the economy.
- Political instability.

Any 10 x 1 = 10 marks

5. (a) Initial deposit

mark)

= $\frac{\text{the final amount of credit created}}{\text{the bank deposit multiplier}}$ (1

mark) but the credit multiplier = $\frac{1}{\text{cash ratio}}$ (1/2

cash ratio

$$\frac{1}{0.5\%}$$

$$= 200 \text{ times}$$

(½ mark)

$$\text{therefore the initial deposit} = \frac{150,000 \text{ billion}}{200}$$

(1 mark)

$$= \text{sh. 750 billion or sh. 750,000,000,000} \quad (1 \text{ mark})$$

(b) Factors that limit credit creation in an economy. Include the following:

- High interest rate on loans / low interest rate on deposits.
- High cash ratio.
- High liquidity preference.
- High levels of poverty / low levels of income possessed by most of the people in the country.
- Few credit worthy customers to commercial banks.
- Lack of or possession of few assets acceptable as collateral security.
- High levels of corruption in commercial banks.
- Political instability.
- Low or limited investment opportunities.
- Large subsistence production. / low level of monetization
- High ignorance about services provided by commercial banks.
- High levels of economic uncertainty. / inflation
- Poor distribution of banks ignoring rural areas.
- Restrictive monetary policy.
- Low levels of initial deposit in financial banks.
- Limited use of cheques when carrying out transactions in developing countries.

Any 8 x 2 = 16 marks

6. (a) Reasons why countries restrict imports.

- To protect local infant or senile industries.
- To raise revenue for government.
- To promote self-reliance / to reduce dependence on other countries for supplies.
- To improve BOP position.
- To protect local consumers against importation and consumption of demerit goods.
- To improve terms of trade of an economy.
- To discourage dumping.
- To increase or maintain employment levels.
- To promote production of strategically important goods locally / to promote national security.
- To revenge similar actions by trade partners / other criteria against her exports. / retaliation
- To strengthen regional economic integration.
- To avoid / control / reduce imported inflation.
- To encourage the exploitation of local natural resources.
- To reduce foreign political dominance.
- In order to increase economic growth / to increase output.

Any 8 x 1 = 8 marks

(b) Demerits of protectionism include:

- Leads to production of poor quality goods due to limited competition.
- Discourages local investment due to rationing of credit / bureaucratic delays etc.
- It makes the protected infant industries to remain inefficient.
- Leads to increased monopoly power among the protected industries. And its associated problems
- Increases government expenditure in enforcing such restrictions.
- Local consumers obtain goods at higher prices.
- Limited variety of products due to a total ban on certain imports.

- Leads to retaliation by other countries.
- Leads to loss of revenue from customers in case of a total is used.
- Encourages trade mal – practices like smuggling.
- Reduces the benefits for free trade and international specialization according to comparative advantage.

Any 6 x 2 = 12 marks

7. (a) Causes of the high public debt in developing countries.

- Frequent occurrence of natural calamities.
- High need for constructing modern infrastructure.
- Political instability that increases military expenditure.
- Low tax base./ narrow
- Low taxable capacity.
- High incidence of tax evasion.
- High incidence of tax avoidance.
- High cost of debt servicing.
- High level of corruption / low level of accountability and transparency.
- High and increasing cost of public administration.
- High rate of inflation.
- High population growth rate.
- Over ambitions / elephantine planning.
- High international commitments.

Any 10 x 1 = 10 marks

(b) Methods that can be adapted to clear public debts are:

- Increase taxes so as to raise more and revenue for paying debts. / introducing new taxes
- Use profits from public enterprise like NSSF, Uganda airlines.
- Create a sinking fund.
- Operate a surplus budget.

- Raise more revenue through sale of government securities like bonds and treasury bills.
- Sale government assets / property to raise funds to pay the debt. / privatisation
- Use debt conversion, this is where government get a new cheaper loan (ie one with lower interest) to clear a more expensive loan.
- Debt repudiation. This involves government refusing to pay the debt owed.
- Use grants / donations.
- Negotiate for a debt relief or waiver / cancellation.
- Use a debt swap. i.e exchanging a debt for a debt.
- Use capital levy ie the rich are made to pay more / contribute to fund to clear debt
- Print more currency notes.
- Borrow from local or foreign sources to get funds to pay mature debts.

Any 10 x 1 = 10 marks

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MARKING GUIDE

ECONOMICS P220/2

SECTION A (20 MARKS)

1.(a) (i) **Occupational mobility of labour** refers to the ease with which/ability of labour/degree to which labour moves from one occupation/ job to another. (1mk)

(ii) **Factors that affect occupational mobility of labour in Uganda.**

- Working conditions in the current occupations.
- Knowledge about existing jobs.
- The wage rate in the current occupation.
- The financial requirements involved in changing to the alternative job /occupation e.g application fees, transport costs etc.
- The time period required for training for the alternative job.
- The degree of specialization of labour.
- Levels of skills required in the alternative job.
- Social factors e.g religion, culture etc. or the level of discrimination in the labour market.
- Possibility of promotion at the current job.
- Level of esteem attached to the alternative job.
- The cost of training for the alternative job.
- The age of the workers.

(Any 3 X 1mk)

b i) **Foreign aid** - refers to the international transfer of resources /funds in the form of loans or grants or technical assistance e.t.c either directly from one government to another or indirectly through the vehicle of a multilateral assistance agency like world bank and international monetary fund.

(1mk)

(ii) **Reasons for foreign aid dependence in Uganda**

- To fill the man power gap.
- To fill the technological gap.
- To fill the government revenue expenditure gap.
- To fill the savings – investment gap.
- To fill the foreign exchange gap.
- To alleviate suffering of people due to natural disasters.
- To strengthen international relations between the donor and recipient country.
- To facilitate development of infrastructure.
- To facilitate creation of employment opportunities.
- To accelerate industrial growth.
- To improve the productive capacity of the recipient country.
- To improve and maintain national security.

(any 3 x 1mk)

C i). **Structural unemployment** – it is one that arises from the changes in the patterns of demand and supply in an economy. (1mk)

ii). **Solutions to structural unemployment in Uganda**

- Advertise jobs.
- Equip labour with multiple skills.
- Diversify the economy.
- Improve political climate.
- Encourage use of appropriate technology.
- Expand market for goods and services.
- Encourage flexibility in production.

- Retrain workers.

(Any 3 x 1mk)

di). **Direct taxes** - are taxes imposed on the incomes or properties of individuals and companies whose incidences are borne by the tax payer himself.
(1mk).

While

Indirect taxes – are taxes imposed on goods and services whose incidences are borne by the consumers of the products or the seller or can be shared by both depending on the elasticity of demand of the commodity.
(1mk)

(ii) Merits of direct taxes in Uganda.

- They reduce monopoly powers.
- They are a source of revenue to the government.
- They promote hard work.
- They reduce income inequality .
- They influence resource allocation.
- They control (demand pull) inflation.
- They are convenient to the tax payers.
- They are elastic or flexible.
- They are certain to the tax payer.
- They are economical or cheap to collect.
- They are simple, clear and easy to understand.

(Any 2 x

1mk)

ei). **Divestiture**- it refers to the total sale of public enterprises to private individuals and companies.

OR

It's the sale of all the shares and assets of the public enterprises to private individuals or companies.

(1mk).

(ii) Factors that hindered divestiture in Uganda.

- Wide spread poverty/high levels of poverty among the nationals/shortage of capital / Limited funds
- Poor state/condition of some enterprises.
- The small market.
- High levels of corruption within the privatization unit / Low levels of accountability
- Political instability in some parts of the country or in areas where some of the enterprises are located.
- Political sabotage.
- Opposition from the public.
- Under developed capital markets.
- Poor valuation of the public enterprises.
- Unscrupulous buyers/Dishonest buyers.
- Ideological differences.
- High costs of the process of privatization.
- Bureaucracy within the process

(Any 3 x 1mk)

SECTION B (80 MARKS)

2. (a) Uses of price elasticity of demand in Uganda.

- Used by consumer when making consumption decisions/planning their expenditures.
- Used by producers in price determination or pricing their products.
- Used by producers in wage determination. Skilled labour - inelastic
- Used by monopolists during price discrimination. Casual / low - Elastic

- Used by producers in determining the tax incidence. I.d – consumer pays much
- Used by producers in making advertisement decisions.
- Guides government in formulation of taxation policies.
- Guides government in making its subsidization policies.
- Used by government in determining public utilities.
- Used by government in formulation of foreign trade policies. (Any 6 x 1mk)

b). Factors that make demand for goods price inelastic in uganda.

- Availability of commodities with few substitutes.
- High degree of necessity of commodities.
- Habit in use of the commodity.
- High level of the consumers income.
- Small proportion of consumers income spent on a commodity.
- Few number of uses to which a good can be put.
- Durability of the commodities.
- High levels of advertisement.
- Low possibility of postponing use of the commodities.
- Ease in obtaining or acquiring a commodity.
- Short run period.
- Expectations of the future price decrease. (Any 7 X 2mks)

3a). Factors that have influenced the level of foreign direct investment in uganda.

- Level of development of infrastructure.
- Availability of raw materials.
- Land tenure system.
- Existing stock of capital.
- Political climate.
- Level of technology.
- Labour skills.

- Size of market.
- Level of accountability.
- Degree of liberalization of the economy.
- Rate of inflation.
- Level of taxation and subsidization / availability of tax incentives.
- The entrepreneurial ability.
- Degree of conservatism.
- The level/ degree of bureaucracy.
- The level of publicity of investment opportunities in the country. (Any 5 x 2mks)

b). Role of foreign direct investment

Positive role

- Increases resource utilization.
- Provides employment opportunities.
- Increases labour skills/ fills the skilled manpower gap/ increases supply of skilled labour.
- Increases output hence economic growth.
- Provides revenue to government.
- Promotes infrastructural development.
- Leads to technological transfer / fills technological gap.
- Widens consumers choices due to production of a variety.
- Encourages efficiency of local firms due to competition.
- Leads to production of quality goods.
- Leads to development of industrial sector.
- Promotes friendly relations with other countries (hence increased international peace and trade /aid).
- Increased inflow of foreign exchange / fills the foreign exchange gap.
- Improves the balance of payment position.
- Fills the savings investment gap.

(Any 5 x 1mk)

Negative role

- Accelerates capital outflow through profit repatriation.
- Causes balance of payment problem.
- Promotes external dependence of the economy.
- Leads to unemployment.
- Worsens income inequality.
- Leads to resource depletion.
- Causes regional imbalance in development.
- Leads to low tax revenue.
- Out competes local firms.
- Causes social costs/ environmental degradation.
- Results into cultural erosion.
- Promotes economic domination of the economy by foreigners. (Any 5 x 1mk)

4a). Reasons for industrialization of the economy of Uganda.

- To provide revenue to government.
- To provide employment opportunities.
- To promote infrastructural development.
- To accelerate economic growth.
- To promote use of resources.
- To promote economic diversification.
- To improve the balance of payment position.
- To promote linkages with other sectors.
- To improve labour skills.
- To reduce dependence on imports.
- To provide a variety of goods and services.
- To promote inflow of capital.
- To promote development of skills.
- To control inflation.
- To provide better quality goods and services. (10 x 1mk)

b) Factors that are limiting the industrialization process in Uganda.

- Inadequate capital.
 - Limited labour skills.
 - Limited market.
 - High taxation and low subsidization.
 - Shortage of raw materials.
 - Low level of entrepreneurial skills.
 - Poor land tenure system.
 - Poor infrastructure.
 - Political instability.
 - High rate of corruption.
 - Low level of technological.
 - High rates of inflation.
 - Under developed capital markets.
 - Poor performance of agricultural sector which is the main source of raw materials to agro based industries.
- (Any 10 x 1mk).

5a). Features of Uganda's population

- Dominated by the young.
- Females are more than males.
- Population is mainly rural based.
- Majority of the population is semiskilled and unskilled.
- Characterized by high rates of illiteracy.
- Characterized with a high population growth rate.
- Productive force of the population is mainly engaged in primary production.
- High proportion of the population lives below the international poverty line.
- There is uneven spatial distribution of the population (population is unevenly distributed).

b). Effects of high population growth in Uganda.

(Any 8 x 1mk)

positive effects.

- Leads to a high market potential/increases market for goods and services.
- Leads to a high potential for labour force/ increases the labour force/ increases labour supply.
- Results into a high potential for massive future investments/increases investment /encourages investment.
- Results into a high tax potential/increases government revenue/increases tax bases.
- Promotes hard work to sustain the predominantly dependent population i.e both at family and national level.
- Reminds government of its responsibility of providing the social and economic infrastructure.
- Increases resource utilization.
- Implies high potential for innovations and inventions (because young are majority) and are innovative).
- Encourages labour mobility.
- Reduces percapita social overhead costs.

(Any 6 x 1mk)

Negative effects

- Leads to a high dependence burden.
- Results into unemployment and under employment.
- Leads to low labour productivity.
- Leads to high social costs e.g pollution.
- Leads to balance of payment problems.
- Leads to high level of external resource dependence.
- Over strains the country's infrastructure.
- Leads to high government expenditure on providing social services.
- Leads to brain drain.
- Leads to high rates of rural urban migration and its evils.
- Makes government planning for the population difficulty.

- Leads to over exploitation of resources.
- Leads to income inequality.
- Leads to excessive pressure on land.

(Any 6 x 1mk)

6a). Importance of monetary policy in Uganda.

- Helps to attain price stability /control inflation.
- Used to control unemployment.
- Used in reducing the balance of payment problems.
- Used to influence the level of investments.
- Used to influence the level of economic growth.
- Helps to ensure stability of the exchange rates.
- Helps to influence the interest rates in the economy.
- Used to encourage growth of the financial sector.

(Any 6x 1mk)

b). Causes of failure at successful implementation of the monetary policy in Uganda.

- Ignorance of the open market operations by the public.
- Conflicting government objectives.
- Under developed money markets.
- Excess liquidity in the commercial banks.
- High liquidity preference among the public.
- Large subsistence sector.
- Dominance of foreign owned commercial banks.
- High rates of corruption with in the commercial banks by bank officials.
- Poor distribution of commercial banks.
- Political interference in the implementation of the monetary policy.
- Limited effective use of commercial banks by the public.

(Any 7 x 2mks)

7a). Demerits persistent inflation in uganda

- Discourages savings.
- Discourages investments

- Worsens balance of payment position.
- Promotes rural urban migration and its evils.
- Leads to unemployment.
- Discourages hard work (by the poor).
- Promotes tax evasion/ low tax revenue.
- Creditors lose.
- Leads to industrial unrest/ strikes.
- Leads to unpopularity of government.
- Promotes speculation.
- Low / fixed income earners suffer/ causes misery among the poor.
- Encourages production of low-quality goods.
- Leads to brain drain.
- Promotes social vices e.g crime and immorality.
- Straining workers due to long hours of work.
- Made planning difficult.
- Leads to collapse of some firms.
- Worsens income inequality.
- Leads to profit repatriation.
- Leads to loss of confidence in the local currency. (Any 10 x 1mk)

b). Measures that have been taken to reduce the rate of inflation in uganda.

- Reduced government expenditure.
- Increased direct taxes.
- Developed infrastructures.
- Modernized agriculture.
- Provided (tax) incentives to investors.
- Improved political climate.
- Liberalized the economy.
- Privatized public enterprises.

- Encouraged establishment of import substitution industries.
- Adopted restrictive monetary policies/ reduced credit creation.
- Enforced wage freeze/wage restrain policies.
- Encouraged importation from cheaper sources.
- Controlled issuance of currency.
- Discouraged exportation of essential goods.
- Reduced indirect taxes on essential goods. (Any 10 x 1mk)

END

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ENTREPRENEURSHIP EDUCATION