WAKISSHA
MARKING GUIDE
Uganda Advanced Certificate of Education
ECONOMICS P220/2

SECTION A (20MARKS)

1. (a) (i) **Labour efficiency** is the measure of quantity and quality of output that a unit of labour can produce in a given period of time. (01 mark)

OR

Is the ability of labour to achieve greater output within a short time without any decline in the quality of output.

(ii) **Three ways of increasing labour efficiency in Uganda.** (3 x 1 = 03marks)

- Improving the working conditions.
- Ensuring political stability.
- Increasing wages of workers.
- Training labour.
- Improving the techniques of production.
- Ensuring strict/quality management and supervision.
- Increasing the level of innovation and inventions.
- Encouraging specialisation.

(b) **Four features of the industrial sector in Uganda.** (4 x 1 = 04marks)

- It is mainly urban based.
- It is mainly comprised of processing industries.
- It is dominated by small scale industries.
- It mainly produces low quality goods.
- Most of the firms in the sector are privately owned.
- It mainly employs labour intensive technology.
- Industries are mainly import substituting in nature.
- Many firms use unskilled / semi-skilled labbour.
- Mainly low quantity of output produced / mainly produces at excess capacity.
- It mainly produces consumer goods like salt, sugar etc.
- Many industries are agro-based.
- It has limited linkages with other sectors of the economy.
- It has high imported low materials intermediate product content.
- Durable consumer goods industries are mainly assembling plants.

(c) (i) Economic dependence is the reliance of an economy on other economies / sectors for survival/ development. (01 mark)

While

Economic interdependence refers to a situation in which two or more economies rely on each other for mutual benefit of all. (01 mark)

(ii) Two forms of economic dependence in Uganda.

- Sectorial dependence / Dependency on agriculture.
- Trade dependence.
- External resource dependence.
- Direct economic dependence.

(2 x 1 = 02

(d) (i) Cost push inflation is the persistent increase in the general price level arising out of rising cost of production. (01 mark)

While

Structural inflation is the persistent increase in the general price level due to supply rigidities in the economy leading to a decline in supply of goods and services. (01 mark)

(ii) Two causes of cost push inflation in Uganda.

- Depreciation of local currency.
- Rising cost inputs.
- Rising cost of inputs.
- Rising cost of advertising / sales promotion.
- Increasing cost of borrowing / interest rate.
- Rising cost of rent.
- Rising cost of fuel/power etc.
- Rising tax levels.
- Rising cost of transport.
- Rising wage / salaries of workers.

2 X 1 = 2marks

(e) (i) Privatization is the transfer of ownership of state enterprises to private ownership / private investors. (01 mark)

(ii) Three benefits of privatization in Uganda.

- Increase output hence economic growth.
- Increase government revenue.
- Widens consumers' choices / provides a variety of commodities.
- Reduces government expenditure.
- Reduces dependence on imports.
- Reduces corruption in the enterprises.
- Reduces bureaucracy / red tape.
- Encourages investment by foreigners.
- Improves the quality of output.
- Improves.
- Creates more job opportunities.
- ~~Creates~~ Improves efficiency in resource utilization.
- Improves skills among workers.
- Reduces inflation as more goods are produced.
- Promotes invention and innovations.

3 x 1 = 3 marks

SECTION B (80 MARKS)

2. (a) The rationale of developing the industrial sector in Uganda. 10 x 1 = 10 marks

- To diversify the economy.
- To create more employment opportunities.
- To provide government revenue.
- To reduce dependence on imports / economic dependence.
- To promote infrastructural development.
- To increase output hence economic growth.

- To improve the balance of payment position.
- To reduce imported inflation.
- To promote technological development.
- To increase utilization of natural resources.
- To create linkages with other sectors of the economy.
- To improve skill of labour.
- To improve terms of trade.

(b) The measures being taken to promote industrial development in Uganda. (10 marks)

- Developing infrastructure.
- Providing investment incentives such as tax holidays, subsidies etc to investors.
- Ensuring political stability.
- Providing affordable capital / credit to investors.
- Improving the land tenure system.
- Improving the labour skills through training,
- Fighting corruption / Ensuring proper accountability.
- Widening market through joining regional economic integration.
- Improving technology.
- Developing the agricultural sector to provide raw materials to the agro based industries.
- Privatizing public enterprises.
- Establishing specialized institutions.
- Protecting the infant industries.
- Liberalizing the economy.
- Encouraging development of entrepreneurial skills.

10 x 1 = 10 marks

3. (a) **Bilateral aid** refers to the direct transfer of funds and resources from one country to another e.g Japan to Uganda. 02 marks

While

Multilateral aid refers to the indirect transfer of funds and resources to country through the vehicle of international aid agencies such as IMF and World Bank. 02 marks

(b) **Positive roles of foreign aid in development of Uganda.**

- It helps in filing the savings investment gap.
- It fills the foreign exchange gap / foreign trade gap.
- It fills or closes the skilled man power gap.
- It closes the technological gap.
- It fills the government revenue expenditure gap i.e source of government revenue.
- It increases employment opportunities.
- It facilitates development of infrastructure.
- Enhances utilization of local resource that would remain idle.
- Helps in alleviating effects of natural disasters / catastrophes.
- It strengthens international relations hence promoting exchange of ideas among people as well as increasing the volume of I.T.
- Improves productivity, skills and wages of labour. Aid is channeled into productive projects which hire/employ workers who earn incomes.
- Foreign aid in form of capital investment accelerates industrial growth / diversifies the economy.

8 x 1 = 08 marks

Negative roles of foreign aid in development of Uganda.

- Balance of payment problems due to repayment obligations.
- Debt servicing sometimes denies the nationals essential goods and services.
- Leads to unemployment especially technical aid.
- Worsens economic dominance of donors over Uganda/neo colonialism.
- Lead to income / profit repatriation.
- Foreign aid which is tried to unproductive projects stagnates economic growth.
- In most cases aid is inadequate, this leads to project failure.
- Erodes social cultural values of people in Uganda.
- Sometimes the preconditions set before aids is given are disastrous/ disadvantageous e.g SAPs (Structural Adjustment Programs)
- Encourages extravagant use of resources expecting more in the near future.
- It leads to underutilization of local resources due to reliance on foreign resources.
- Leads to brain rain which worsens the skilled manpower gap.
- It may be withdrawn before completion of the projects hence project failure.
- The political strings attached to aid undermine the political sovereignty of the country.
- It is inconsistent in most cases which distorts planning.
- Aid bogs down local initiative as Ugandans expect more aid consistently.

$8 \times 1 = 08$ marks

4. (a) How wages are determined in Uganda.

- By piece rate method.
- By force of demand and supply for labour in the labour market.
- Employers setting wages.
- Individual bargaining by workers.
- Collective bargaining by trade unions.
- By the time rate method.
- Government policy of setting wage e.g U_1 ,U_2 , U_4 etc.

$6 \times 1 = 06$ marks

(b) **An account for wage differentials in Uganda.**

- Differences in natural talents and gifts.
- Differences in the level of education / training/ skills of workers.
- Differences in the number of hours worked.
- Differences in the amount of work done / piece rate.
- Differences in experiences / expertise / responsibility i.e senior workers earn more than the juniors.
- Differences in individual bargaining power of workers.
- Differences in the nature of jobs / occupations e.g primary/secondary occupations.
- Differences in the cost of living.
- Non matching policy of government on wages salaries paid to certain category of workers.
- Differences in employers' ability and willingness to pay workers.
- Discrimination in the labour market on the basis of sex, religion, race etc.
- Differences in elasticity of labour supply.
- Variations in the bargaining strength of trade unions.

$7 \times 2 = 14$ marks

5. (a) **A description of the process of credit creation.**

- Commercial banks create credit by
- Receiving of the initial deposit by the first Bank A.
- Keeping of percentage of deposits as cash ratio by Bank A.
- Leading the remaining amount to a credit worthy borrower.
- Receiving of loan by Bank B as its new deposit.
- Keeping of percentage of the deposits by Bank B as cash ratio.
- Leading the remaining amount to a credit worthy borrower.
- The process continues till the initial deposit diffuses in the banking system.
- At the end of the process total credit created is equal to initial deposit X credit multiplier.

8 x 1 = 08 marks

(b) **The factors that affect credit creation in Uganda.**

- Size of cash ratio.
- Size of bank deposits.
- Interest rate on loans.
- Government monetary policy i.e restrictive or expansionary.
- The distribution of commercial banks.
- The level of investment opportunities.
- The level of liquidity preference.
- The availability of credit worthy borrowers.
- The level of accountability in commercial banks.
- The degree of uncertainty in the country.
- The level of monetization in the country.
- Degree of awareness about the loans and other commercial banks.
- The rate of inflation.
- Availability of collateral security.

6 x 2 = 12 marks

6. (a) **Surplus budget** is one where the government estimated revenue exceeds the government estimated expenditure in a given financial year. (02 marks)

While

A deficit budget is a budget where the government estimated expenditure exceeds / is greater than the government estimated revenue in a given financial year.

(02 market)

(b) **An account for the persistent budget deficits in Uganda.**

- Rising cost of developing infrastructure.
- Frequent occurrence of natural hazards e.g floods.
- Low levels of accountability / High levels of corruption.
- Political instability leading to high military expenditure on defence.
- Limited non tax sources of revenue.
- Heavy expenditure on external commitments e.g contribution to UN.
- Over ambitious planning by the government.
- Narrow tax base / few tax bases.
- Low taxable capacity hence low tax returns / revenue.
- Weak tax administration.
- Rising expenditure on settlement of public debts.
- Rising administrative costs e.g on MPs, cabinet, presidential advisors etc.
- Existence of a large subsistence sector.

7. (a) **The benefits of economic development planning in Uganda.**

- Reduces economic dependence / Ensures self-sufficiency.
- Ensures proper allocation of resources / utilization.
- Ensures equitable distribution of incomes / resources.
- Reduces the level of unemployment.
- Corrects balance of payment problems.
- Encourages public participation in the development of the economy.
- Ensures stability in prices.
- Promotes resource mobilization.
- Ensures consistent use of natural resources.
- Means of attracting foreign aid.
- Identifies areas suitable for public and private investment.
- Relates present to future trends and targets.
- Promotes faster rate of economic growth.
- Corrects deficiencies of price mechanism especially during rapid structural changes.

10 x 1 = 10 marks

(b) **The measures that have been taken to promote effective implementation of economic development plans in Uganda.**

- Availed / solicited more funds for plan implementation.
- Ensured collection of proper data for planning.
- Developed infrastructure.
- Supported the national planning authority through following up the national development plans.
- Encouraged proper accountability in planning units.
- Sensitized the private sector on its role in planning.
- Discouraged political interference / promoted autonomy of the planning.
- Provided skills to planners through training.
- Stabilized prices.
- Avoided over ambitious plans.
- Minimized dependence on foreign aid.
- Minimized dependence on nature.
- Ensured political stability.

10 x 1 = 10 marks

END

SECTION A (20 MARKS)

Answer **all** parts of this question.

1. (a) (i) Define the term **labour efficiency**. (01 mark)
   (ii) Give any **three** ways of increasing labour efficiency in Uganda. (03 marks)

(b) State **four** features of the industrial sector in Uganda. (04 marks)

(c) (i) Distinguish between **economic dependence** and **economic interdependence.** (02 marks)
   (ii) Mention **two** forms of economic dependence in Uganda. (02 marks)

(d) (i) Differentiate between **cost push inflation** and **structural inflation.** (02 marks)
   (ii) Give **two** causes of cost push inflation in Uganda. (02 marks)

(e) (i) What is meant by the term **privatization**? (01 mark)
   (ii) Mention **three** benefits of privatization in Uganda. (03 marks)

SECTION B (80 MARKS)

Answer only **four** questions from this section.

2. (a) What is the rationale of developing the industrial sector in Uganda? (10 marks)
   (b) Explain the measures being taken to promote industrial development in Uganda. (10 marks)

3. (a) Distinguish between **bilateral aid** and **multilateral aid.** (04 marks)
   (b) Assess the role of foreign aid in the development of Uganda. (16 marks)

4. (a) How are wages determined in Uganda? (06 marks)
   (b) Account for wage differentials in Uganda. (14 marks)

5. (a) Describe the process of credit creation. (08 marks)
   (b) Examine the factors that affect credit creation in Uganda. (12 marks)

6. (a) Distinguish between a surplus budget and a deficit budget. (04 marks)
   (b) Account for the persistent budget deficits in Uganda. (16 marks)

7. (a) What are the benefits of economic development planning? (10 marks)
   (b) Explain the measures that have been taken to promote effective implementation of development plans in Uganda. (10 marks)

END