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ECONOMICS

SEMINAR 2024

SOLUTIONS GUIDE

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SECTION A

1. (a) i. An opportunity cost curve is one that shows all possible combinations of **two** commodities that can be maximumly produced when the available resources are fully and efficiently employed.

ii). Causes of a shift of the opportunity cost curve.

- **Change** in size of labour force
- **Change** in skills of workers
- **Change** in natural resource base
- **Change** in level of capital inflow
- **Change** in level of technology
- **Change** in level of entrepreneurial skills

b. (i). Public goods are those goods which when provided (usually by the state) to particular group of people become available to other users at zero cost and consumption by one person does not reduce the amount for others (e.g. roads)

WHILE

Free goods are those goods that exist in **natural abundance** and are enjoyed at no cost e.g. Sunshine

(ii). Inferior goods are those goods consumed mainly by the poor people and their demand falls as income rises.

WHILE

Giffen goods are those goods that take big proportion of the poor person's income and their demand rises as the price increases

c. (i). An increase in demand refers to a situation where more of a good is bought at a constant price due to a **favorable change** in the other factors affecting demand.

WHILE

Increase in quantity demanded is a situation where more quantities of a good are bought due to a **fall/ decrease** in price of a good other factors affecting demand remaining constant.

(ii). Conditions that may lead to an increase in demand for a good.

- **When** the price of the substitute increases
- **When** the price of the complement decreases.
- **In case** the income of the customer rises.
- **Where** customers tastes and preferences become favourable.
- **When** population size increases
- **When** the level of taxes on people's incomes reduce
- **In case** of a favorable change in income distribution
- **When** consumers expect an increase in price in future
- **When** the season changes favourably
- **When** advertising level increases
- **Where** credit facilities increase.

d. (i). Elasticity of supply is the degree of responsiveness of quantity supplied of a good to change in the factors that influence supply.

WHILE

Price elasticity of supply is the degree of responsiveness of quantity supplied to change in the price of the good.

(ii). Determinants of elasticity supply in an economy

- Costs of production
- Gestation period
- Level of technology
- Degree of durability / perishability
- Time period
- Natural factors
- Degree of freedom of entry of firms into the industry
- Political climate
- Speculation by producers / suppliers
- Availability of excess capacity
- Government policy on taxation and subsidization

e. (i). Amalgamation of firms is the coming together of the two or more firms to form one firm.

(ii). Dangers of amalgamation of firms in an economy

- Leads to monopoly power and its evils
- Worsens the problem of unemployment
- Leads to managerial problems
- Small firms lose independence
- Leads to over production due to a small market
- Leads to quick depletion of resources
- The bigger firm is targeted by government for higher taxes

f. (i). Retail price index is a measure of the relative change in the prices of essential consumer goods from the base year to the current year. It is also called cost of living index.

(ii). Challenges encountered in the compilation of price index in Uganda

- Difficulty in selecting a basket of goods
- Difficulty in choosing a base year
- Difficulty in attaching weights
- Change in price over time
- Change in tastes and preferences
- Limited information/ data
- Emergency of new goods and exit of old ones from the market
- Absence of standardized weights and measures
- Absence of standard prices due to bargaining
- Variation in prices in different regions
- Limited facilities e.g. computers
- Limited skilled labour

g. (i). Economic dependence is the reliance of an economy on another economy / sector for development

WHILE

Economic interdependence is a situation where economics / countries rely on each other for mutual benefit to all.

(ii). Measures that **can be taken** to reduce economic dependence in Uganda.

- Improve political climate
- Encourage local savings
- Widen tax base
- Train local manpower
- Promote import substation industries
- Develop local technology
- Diversity market for export
- Encourage economic diversification

h. (i). Balanced growth theory emphasizes harmonious and simultaneous development of all sectors of the economy so that they complement each other and grow at more or less the same race.

WHILE

Unbalanced growth theory states that the leading sector(s) should be chosen and developed first which later leads to development of other sectors through linkages.

(ii). Reasons for adopting a balanced growth theory in an economy

- To promote inter-sectoral linkages
- To improve the skills of workers
- To improve the balance of payment position
- To widen the tax base
- To accelerate the rate of economic growth
- To increase employment opportunities
- To promote resource utilization
- To widen market for goods
- To reduce economic dependence
- To reduce income inequalities
- To encourage balanced regional development
- To promote technological development
- To promote infrastructural development
- To improve consumers choice
- To improve the quality of goods

i. (i). Bilateral aid refers to the transfer of resources to a country directly from another country

WHILE

Multilateral aid is the transfer of resources to a country from international donor agencies e.g. World Bank, IMF, UN. Etc.

(ii). Benefits of relying on foreign aid in developing countries

- Closes the foreign exchange gap
- Closes the skilled manpower gap
- Fills the technological gap
- Fills the government revenue expenditure gap
- Closes the savings-investment gap
- Promotes technological development
- Increases employment opportunities
- Helps to alleviate the effects of catastrophes
- Improves skills of workers
- Promotes resource utilization
- Strengthens international relations
- Promotes industrial growth

j. (i). Keynesian theory of unemployment states that unemployment arises due to deficiency in aggregate demand / effective demand in times of recession or depression.

(ii). Relevancies of Keynesian theory of unemployment in Uganda

- Uganda has an industrial sector i.e. industries close as the demand reduces as the theory suggests.
- The expansionary monetary policy to increase aggregate demand has to some extent stimulated investment as the theory suggests
- Increase in supply of co-operant factors such as capital has tended to expand production and create more jobs as the theory assumes
- Incentives provided in private investors have tended to increase investment in the private sector in Uganda as the theory suggests
- At times unemployment in Uganda arises are to falling demand for goods both internally and externally as the theory assumes

k. (i). Money supply refers to the total amount of money in circulation and money on demand deposits (current accounts)at a particular period in an economy `````

WHILE

Demand for money is the desire by the public to hold wealth in cash form.

(ii). Factors that may lead to an increase in money supply in Uganda

- Increase in level of economic activities
- Increase in capital inflow
- Adoption of an expansionary monetary policy
- Increase in liquidity preference
- Decrease in interest rate on borrowing

- Reduction in subsistence sector / increase in monetization of the economy
- Increase in government expenditure
- Increase in credit creation
- Reduction in internal borrowing by the government
- Increase in issuance of currency
- Improvement in balance of payment position

l. (i). Mild inflation is one where prices of goods rise at a **slow rate** not exceeding **9%**

WHILE

Hyper-inflation is one where prices of goods rise at a **fast rate** usually exceeding **10%**

(ii). Effects of hyper-inflation in an economy.

- Discourages savings
- Leads to loss of confidence in the local currency
- Leads to balance of payment problems
- Leads to industrial unrest
- Worsens the problem of income inequality
- Discourages investment
- Leads to unemployment
- Makes the government unpopular
- Leads to production and consumption of poor- quality goods
- Makes planning difficult
- Fixed income earners suffer
- Discourages lending
- Encourages trade malpractices
- Strains the population
- Leads to brain drain

m. (i). Tax evasion is where taxpayer deliberately refuses to pay a tax assessed on him / her and it's illegal

WHILE

Tax avoidance is where a taxpayer exploits the loopholes / weaknesses in a tax system to pay less tax or not to pay at all and it's legal usually by not consuming a taxed commodity.

(ii). Roles of taxation in Uganda

- Discourages dumping
- Promotes fair distribution of income
- Influences resource allocation
- Discourages consumption of demerit goods
- Controls demand pull inflation
- Improves balance of payment position
- Increases government revenue
- Controls monopoly power
- Encourages hard work
- Protects infant industries

n. (i). Currency devaluation is the legal reduction in the value of the country's currency in terms of other currencies

WHILE

Currency depreciation is the fall in value of a country's currency in terms of other currencies due to forces of demand and supply.

(ii). Conditions necessary for the success of currency devaluation in an economy

- The demand for exports should be elastic
- The demand for imports should be elastic
- The supply for the exports should be elastic
- Competing countries should not devalue at the same time
- There should be no trade barriers in exports markets
- The devaluing country should not experience inflation

o. (i). Centralized planning is one where the central planning authority allocates resources to the entire economy and directs implementation of plans in line with the set targets

WHILE

Decentralised planning is one where decision making and the implementation of plans in line with the set targets is undertaken by the local authorities / government.

(ii). Factors that **affect** economic development planning in developing countries

- Political climate
- Availability of information / data
- Level of skills / efficiency of the planning machinery
- Availability of funds / finances
- Level of government commitment
- Level of conservatism / will of the people
- Level of development of infrastructure
- Degree of responsiveness of the private sector
- Level of ambitiousness of the plans made
- Natural factors
- Rate of inflation
- Degree of political interference
- Level of accountability

SECTION B

2. (a). A market economy is an economy system where resources are owned by individuals and allocated by the market forces of demand and supply without government interference

WHILE

A command economy is an economic system where resources are owned and allocated by the state.

(b). Costs of a market economy

- Leads to emergency of monopoly power and its evils

- Leads to income inequality
- Creates economic instabilities such as inflation, unstable exchange rates. This is because there is no government control and prices change as market forces of demand and supply change.
- It doesn't respond to rapid structural changes in the economy especially due to unfavourable natural factors. This is because such changes are not profitable and therefore left to government.
- Ignores provision of public / essential goods
- Leads to resource wastage due to duplication
- Leads to misallocation of resources
- Leads to over exploitation of resources
- Increases social costs / worsens environmental degradation
- Leads to unemployment

Benefits of market economy

- It's a cheap system. This is because adjustments between demand and supply are automatic with no need of persons to monitor the allocation of resources.
- Encourages production of high – quality goods. This is due to existence of many produces that creates competition
- Limits wastage of resources
- Improves / widens consumer choice
- Encourages consumer sovereignty
- Increases resource exploitation
- Enables consumers to obtain goods at lower prices
- Encourages efficiency of firms in production
- Promotes creativity and innovation
- Creates employment opportunities

3. (a). Competitive supply refers to the supply of two or more goods using the same resource such that increase in supply of one good leads to a reduction in supply of another e.g. supply of milk and beef from a cow.

WHILE

Joint supply refers to the supply of two or more goods from the same source / procedure of production such that an increase in supply one good leads to an increase in supply of the other e.g. supply of beef and hides

(b). Causes of change in supply for a good

- **Change** in price of a jointly supplied good. An increase in price of the jointly supplied good makes at more profitable to supply and as a result the supply of the commodity in question increases since they come from the same source. On the other hand a decrease in the price of a jointly supplied good discourages suppliers because its less profitable and as a result the supply of the commodity in question reduces as well since they have the same procedure of production

- **Changes** in price of a competitively supplied good. An increase in the price of a competitively supplied good reduces the supply of the good in question because producers channel resources to the competitively supplied good which is more profitable and ignore the commodity in question. On the other hand, a decrease in the price of a competitively supplied good increases the supply of the good in question because producers channel more resources to the commodity in question which is more profitable and ignore the competitively supplied good.
- **Change** in cost of production
- **Change** in state of technology
- **Change in objective of the producer.** A change from profit maximization, to sales revenue maximization increases supply because the producer puts more on market to increase revenue while a change from sales revenue maximization to profit maximization reduces supply because the supplier deliberately puts less on market to force the price to rise and earn more profits
- **Change** in government policy on supply
- **Change** in number of producers / supplies
- **Change** in natural factors
- **Change** in political climate. Favourable change in political climate increases supply because producer gain confidence due to safety for lives and property while unfavourable change in political climate reduces supply because producers start fearing for loss of lives and property and produce less
- **Change** in market size
- **Change** in the level entrepreneurial skills
- **Change** in land tenure system
- **Change** in supply of factor inputs e.g. capital, labour skills, raw materials.
- **Change** in level of development of infrastructure

(c). Factors that affect supply of a good

- Price of a jointly supplied good. A high price of a jointly supplied good leads to high supply for it due to high profits as a result it encourages the supply of the commodity in question since they come from the same source. On the other hand, a low price of a jointly supplied good limits its supply due to low profits which also limits the supply of the commodity in question since they have the same production procedure.
- Price of a competitively supplied good. A high price of a competitively supplied good leads to low supply of the good in question since producers commit more resources to the competitively supplied good due to high profits and ignore the commodity in question while a low price of a competitively supplied good leads to high supply of the commodity in question because producers commit more resources to the commodity in question due to high profits and ignore the competitively supplied good.
- Objective of the producer supplier
- Price of the commodity
- Cost of production

- State of technology
- Government policy on supply / production
- Gestation period
- Number of producers
- Natural factors / condition
- Market size / level of demand
- Level of entrepreneurial skills
- Availability of factor inputs e.g. labour skills, capital.

4. (a). Positive role of price mechanism in an economy

- Determines how much to produce / automatic adjustment between demand and supply. As the demand of the commodity increases producers react by increasing supply to benefit from the rising prices.
- Determines how to produce / method of production. Producers use a method of production that is efficient and at the same time affordable in order to increase profits.
- Determines for whom to produce / promotes consumer sovereignty
- Promotes automatic distribution of income
- Determines where to produce
- Determines when to produce
- Determines what to produce
- Ensures efficiency in production
- Promotes production of high – quality goods
- It's an incentive for hard work

Negative role of price mechanism (demerits of price mechanism)

- Leads to uneven distribution of incomes. This is because producers who attract more buyers sell more and earn higher incomes than those producers who attract fewer buyers and sell less.
- Leads to emergency of monopoly power and it's evils. This is due to too much competition among firms where the less efficient firms are out competed and the few that remain enjoy monopoly power.
- Promotes consumer exploitation
- Creates unemployment
- Increases social costs / private benefits exceed social benefits
- It doesn't respond to rapid structural changes
- Leads to wastage of resources due to unnecessary competition
- Leads to economic instabilities e.g. price fluctuation
- Distorts consumer choice
- Leads to misallocation of resources

(b). Challenges of price mechanism in the allocation of resources in Uganda (Limitations)

- Limited capital. This makes it hard for producers to acquire enough raw materials and skilled workers which limit production leading to shortages in the market.

- Existence of monopoly power. Monopoly producers deliberately under- utilize resources and produce very little in order to increase prices and raise profit levels
- Low level of skills of labour / limited supply of skilled labour
- Low level of entrepreneurial skills
- High level of government interference e.g. taxing producers, issuing licenses
- Ignorance of producers and consumers
- Instability to forecast future trends in demands
- Irrationality of producers and consumers
- Poor technology
- Poor state of infrastructure
- Immobility of factors of production especially labour
- Poor instability

5. (a). Causes of instabilities in the prices of agricultural products in Uganda.

- Low income elasticity of demand for agricultural products. This is because as the incomes of the buyers increase farmers are tempted to increase supply of agricultural products hoping to sell more however the buyers maintain the quantities bought leading to surplus in the market and hence reduction in prices and with time supply reduces forcing sellers to increase prices of the products since the consumers buy the same quantities even at a higher price.

  Poor bargaining power of Ugandan producers in the world market / agricultural prices are determined internally. The major buyers of agricultural products dictate the prices. When Uganda and other countries supply too much in the world market the buyers set low prices which leads to a fall in prices in the local market. On the other hand, the times producers supply little in the world market the buyers fight for the little output there by setting higher prices which leads to an increase in the prices of products in the local market.
- Low price elasticity of demand for agricultural products. Sellers of agricultural produce quickly increase the prices of the products the moment supply on the market reduces since they know consumers maintain demand even at higher price and as supply increases they quickly lower the prices of the products the moment supply on the market reduces since they know consumers maintain demand even at a higher price and as supply increases they quickly lower the prices to clear the surplus since they are enticed to buy a little more.
- Long gestation period
- Agricultural products are bulky hence difficult to transport
- Dependence on natural factors
- Agricultural products are perishable and hence difficult to store
- Many producers / farmers making co-ordination of production (planning) difficult
- Poor surplus disposal system / poor transport system
- Divergence between planned and actual output

(b). Impact of unstable prices of agricultural products in Uganda

- Leads to **unstable** exports earnings. Increase in prices of exports increases export earnings while to decrease in exports prices leads to a decrease in export earnings
- Leads to balance of payment **instabilities.** This is because as prices of agricultural exports increase exports earnings also increase which improves the balance of payment position and as prices of exports reduce exports earnings reduce which worsens the balance of payment position
- Income of farmers **fluctuate**
- Leads to **unstable** terms of trade. As the prices of agricultural exports increase the prices of trade improve and as the prices of agricultural exports reduce the terms of trade deteriorate
- Worsens the problem of income inequality
- Leads to **fluctuation** of employment levels / leads to unemployment
- Leads to rural urban migration and its evils
- Leads to **unstable** government revenue
- Investment in agriculture becomes uncertain.
- Leads to **fluctuation** of the exchange rate. As prices of exports increase the supply of foreign exchange increase in the counting which lowers the prices of exports reduces the supply of foreign exchange which increases the exchange rate.

6. (a). Perfect competition is a market structure with **many** sellers of homogeneous goods. There is perfect mobility of factors of production as well as perfect knowledge of the market by both producers and consumers

WHILE

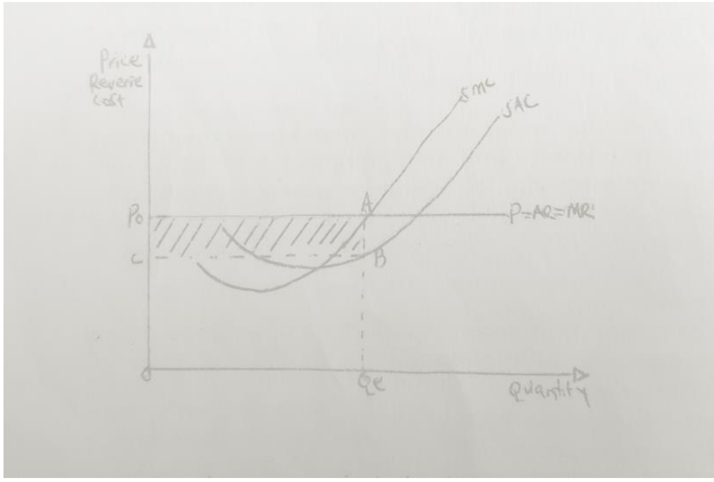
Pure competition is a market structure with many sellers of homogeneous goods.

(b). Assumptions of perfect competition market structure

- Many sellers and buyers
- Producers sell homogeneous goods
- There is freedom of entry and exit of firms
- No government interference
- Firms aim at profit maximization
- No transport costs
- Perfect mobility of factors of production
- No advertising
- Consumers and producers have perfect knowledge of the market
- Firms cannot collude.

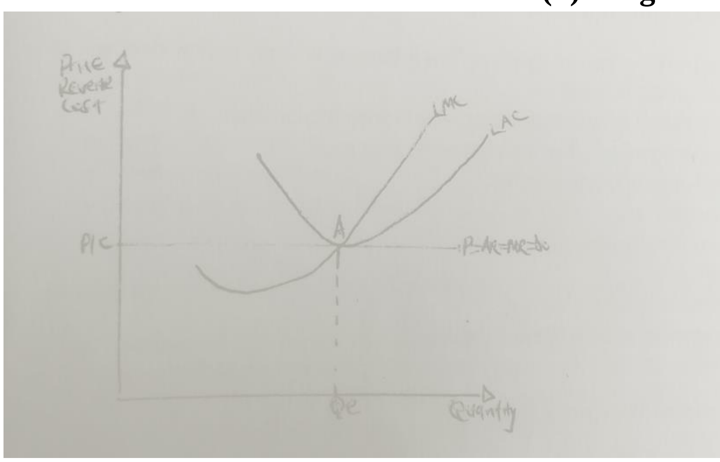
(c). Determination of output, price and profit under perfect competition in the;

(a). short run.



The firm determines output at point A where MC = MR
Price is termed at point A where the output time meets the AR curve
The firm makes abnormal profits represented by the shaded area POABC where AR>AC at the equilibrium point

(b). long run



The firm determines outputs at point LMC = LMR
Price is determined at A where the output line meets the AR curve
The firm makes normal profits where AR = AC at the point of equilibrium

7. (a). Perfect monopoly is a market structure with one seller serving many buyers dealing in a commodity with no substitutes.

WHILE

Imperfect monopoly is a market structure with one producer serving many buyers dealing in a commodity with no close substitutes

(b). Causes of imperfect monopoly in Uganda.

- Provision of patent right to investors and copy right to the owners of intellectual property. The rights bear other producers from producing the same commodity for a given period.
- Larger initial Capital requirement. Other producers cannot afford to raise capital leaving one firm to enjoy monopoly.
- Small market size

- Exclusive ownership of the strategic resources.
- Long distance between producers of similar goods.
- Merging of firms.
- Long period of training or apprenticeship.
- Act of Parliament.
- Protectionism.
- Limited pricing or aggressive price wars
- Collusion / Cartel arrangement.

(b). Positive impact of imperfect monopoly power in Uganda.

- Minimises duplication and wastage of resources. This is because the firm operates alone and as such eliminates un necessary competition.
- Enables low income earners to enjoy certain goods due to price distribution.
- The firm earns abnormal profits both in the long and the short run.
- Promotes the development of infant industries
- Increases government revenue.
- Creates employment opportunities.
- Lower operational costs.
- Public utilities improve consumer's welfare.
- The firm enjoys economies of scale due to expansion.

Negative impact of imperfect Monopoly in Uganda

- Consumers are exploited. This is because the producer takes advantage of being alone and overcharges consumers.
- Limits the consumer choice.
- Worsens the problem of income inequality.
- Leads to production of low-quality goods.
- Leads to unemployment and under employment.
- Sometimes shortages occur due to breakdown.
- Monopoly firms exert pressure on the government
- Leads to underutilization of resources.

(a). National income at a factor cost is the one valued at a cost of acquiring factors of production and includes subsidies.

WHILE

National income at market price is one valued at the prices of goods in the market and it includes indirect taxes.

(b). Factors that have affected the levels of national incomes in Uganda.

- Level of exploitation of resources. High level of resource exploitation has increased the level of national income because it has increased the supply of raw materials leading to high levels of output. On the other hand, low level of resource utilization has lowered the level of national income because of the reduced supply of raw materials which discourages production.

- Availability of skilled labour.
- Land tenure system
- Level of capital stock.
- Level of technology.
- Political climate.
- Market size.
- Level of monetization of economy.
- Level of entrepreneurial skills.
- Rate of inflation.
- Population growth rate.
- Level of saving.
- Level of accountability.
- Degree of conservatism.
- Availability of investment incentives.

(c). Measures that can be taken to increase the level of National income in developing countries.

- Increase the level of resource utilization. This will increase the supply of raw materials and promote further production of goods thus higher levels of national income.
- Liberalize the economy. This will remove unnecessary restrictions in the economy and attract many private sectors leading to high level of output.
- Train labour.
- Improve infrastructure.
- Provides investment incentives.
- Provide credit facilities.
- Widen the market of goods.
- Modernize agriculture.
- Encourage further privatization
- Fight political instability.
- Fight corruption.
- Improve entrepreneurial skills.
- Control population growth rate.
- Diversify the economy.

8. (a). Real per capita income is the value of the base year price to remove the effect of inflation.

WHILE

Nominal per capita income is one valued at current year price and includes the effect of inflation / price fluctuation.

(b). Weaknesses of using per capita income to compare the welfare between countries

- Does not consider differences in the distribution of incomes between countries. Per capita may be higher in one country but when incomes are un evenly distributed and the majority of the people are poor leading to low standards of living yet in another country per capita income may be lower but when incomes are evenly distributed and the majority of the people have a fair purchasing power which improves their standards of living.

- Ignores the difference in the pattern of expenditure between countries
- Ignores differences in the nature of goods produced between countries
- Does not consider the differences in the amount of leisure enjoyed between countries.
- Ignores the differences in the price levels between countries.
- Doesn't consider the differences in political climate between countries.
- Ignores the differences between the quality of goods produced between countries.
- Ignore the difference in accuracy of National income figures between countries.
- Does not consider the differences in the social cost between countries.
- Ignores the differences in the recruitment of individuals between countries.
- Ignores the level of taxation between countries.

(ii). Weaknesses of using per capita income to compare the economic welfare in the country over time.

- Ignores the changes in the income distribution in the economy over time. Per capita income may be higher today but when the income are evenly distributed and the majority of the people are poor leading to low standards of living, yet per capita income may have been lower in the past but when incomes were unevenly distributed and the majority of the people enjoyed reasonable standards of living.
- Does not consider the changes in the pattern of expenditure of incomes in the country over time.
- Ignores the changes in the nature of goods produced and consumed in the country over time.
- Ignores the changes in the amount of leisure enjoyed in the country over time.
- Ignores the changes in the working condition in the country over time.
- Does not consider the changes in the political climate in the country over time.
- Ignores the changes in the quality of goods produced and consumed in the country over time.
- Ignores the changes in the accuracy of national income statistics in the country over time.
- Ignores the changes in employment level over time.
- Ignores the changes in the level of taxation in the country over time.
- Ignores the changes in the price level of goods in the country over time.
- It does not consider the changes in the social costs in the country over time.

9. **(a). Causes of an even distribution of wealth and incomes in Uganda.**

- Difference in the level of Education / skills / training. Highly educated people secure high paying jobs since they are considered very productive and earn high incomes than the less educated who secure low paying jobs.
- Differences in the natural resource endowment. People who stay in the area well-endowed with resources utilize them and produce more goods and earn higher incomes

than people who stay in areas less endowed with resources that produce less and earn little.

- Differences in the natural abilities and talents.
- Differences in the family background
- Differences in the amount produced in case of peace rate system.
- Difference in the time taken working in case of time rate system.
- Differences in the elasticity of supply of labour.
- Differences in the strength of trade Union.
- Differences in the employers' ability to pay.
- Differences in accessibility to good infrastructure.
- Differences in occupation.
- Differences in political climate.
- Differences in the cost of living.
- Discrimination in the labour market.
- Differences in the individuals bargaining power.
- Differences in the experience / security / experience.

(b). Positive Implication of Uneven income and wealth distribution in Uganda.

- Promotes investments among the rich. The rich are able to save and invest which benefits the poor inform of employment.
- Provides cheap labour. The investors acquire labour at low cost since the poor are desperate enough to work for low wages.
- Promotes labour mobility.
- Creates harmony between the employed and the employees and employers.
- Awakens the government to its responsibility of providing for the poor.
- Increases tax revenue through tax progressive taxation.

(c). Negative Implications of Uneven Income and wealth distribution.

- Increases crime rate in the country e.g. child sacrifice, robbery. This is because the higher level of poverty forces the poor to commit such crimes and realize income for survival.
- Undermines the welfare of the poor. This is because the poor can not afford the certain basic necessities.
- Leads to brain drain.
- Leads to rural urban migration and its related evils.
- The poor are exploited by the rich.
- Leads to creation of social classes.
- Leads to political tension.
- Limits government revenue.
- Leads to balance of payment problem.
- Leads to low demand for goods.
- Limits the levels of savings and investments.

10. (a). Structure of Uganda's economy.

- Agriculture is the dominant sector.
- Small but growing industrial sector.
- High population growth rate.
- Open Economy.
- Dualistic economy.
- Mixed economy.
- High rate of illiteracy.
- Dependent economy.
- Widespread employment and Unemployment.
- Underdeveloped infrastructure.
- Wide gap between the rich and the poor.
- Resources are under utilized
- Experiences poor terms of trade.
- Growing informal sector.

(b). Dangers of the Structure of Uganda's economy.

- Leads to Unfavourable balance of payment position. This is because the majority of exports are agricultural products whose prices are low leading to low export earnings.
- Leads to production of low-quality goods because most of the workers are unskilled.
- Limits technological development.
- Low productivity levels or low levels of economic growth.
- Leads to low incomes or wide gap between the rich and the poor.
- Leads to poor terms of trade.
- Leads to high levels of unemployment.
- Limits government revenue.
- Leads to under- utilization of resources.

11. (a). Features of Uganda's industrial Sector

- Dominated by small scale firms.
- Mainly processing plants.
- Most of the firms are privately owned.
- Mainly urban based.
- Most of the firms use poor technology.
- Firms mainly produce poor quality goods.
- Most of the firms are import substitution Industries / produce for local market.
- Industrial firms mostly produce at excess capacity.
- High levels of importation of raw materials.
- Most of the firms are semi and unskilled labour.
- Produce mostly consumer goods.
- Limited linkages with other sectors
- Most of the industries that produce durable consumer goods are assembling plants.
- Many of the industrial firms are agro based.

(b). Contribution of industrial sector in Uganda.

- Creates employment opportunities. This is because many industries are set up which increases economic activities leading to more jobs.
- Promotes the developments of other sectors e.g. agriculture this is done by using raw materials from the agricultural sector.
- Reduces economic dependence.
- Improves the terms of trade.
- Widens tax base.
- Improves the balance of payment position.
- Promotes the development of infrastructures
- Encourages technological development
- Promotes skill development
- Accelerates the economic growth / Increases productivity or raises GDP.
- Promotes resource utilization
- Promotes commercialization of the economy.
- Promotes Entrepreneurial skills.

(c). Steps being taken to enhance the growth of industrial sector in Uganda.

- Improving the state of infrastructure e.g. constructing better road. This is reducing transport costs of industrial goods to markets thus attracting more investors in the sector.
- Improving political climate. This is giving confidence among the investors to set up industrial firms since they are assured of safety for life and property.
- Widening the market.
- Extending Credit / Startup Capital.
- Improving Land tenure system.
- Fighting corruption.
- Reducing the rate of inflation.
- Proving investment incentives.
- Liberalizing the economy.
- Modernizing agriculture.
- Training labour.
- Improving entrepreneurial skills.
- Developing technology.
- Setting up investment promotion institutions.

12. (a). Economic growth is the persistent quantitative increase in the volume of goods and services produced in the country in a given period of time.

WHILE

Economic development refers to persistent increase in quantity and quality of goods produced in the country over a period of time. It involves structural change socially, politically and economically.

(b). Benefits of Economic growth in Uganda.

- Creates employment opportunities. This is because of the increased number of economic activities that generate employment opportunities.
- Reduces Balance of payment position.
- Increases government revenue.
- Leads to the development of infrastructure
- Provides a variety of goods.
- Improves technology.
- Promotes Skill development.
- Increases resource utilization
- Promotes Industrial growth.
- Promotes development of entrepreneurial skills
- Reduces structural inflation.

(c). Costs of economic growth in Uganda.

- Leads to unemployment. This is a result of adoption of capital-intensive techniques which are labour saving technology and as a result, less labour is employed.
- Worsens the problem of income inequality.
- Leads to erosion of cultural value.
- Leads to regional imbalance.
- Leads to rural urban migration and its evils.
- Increases occupational hazards.
- Increases social costs / leads to environment degradation.
- Resources are over utilized.
- Encourages profit repatriation.
- Leads to high debt burden.
- Leads to low quality output.
- Leads to displacement of people.
- Leisure time is foregone due to overworking.
- Present is sacrificed to save for future investment.

Measures that may be taken to increase the rate of economic growth in Uganda .

- Train labour. This will increase the number of skilled workers at home and reduce the cost of acquiring labour from other countries which increases the production of goods.
- Provide investment incentives, tax holidays. This will lower the cost of production and attract more producers due to increased profitability of business.
- Increase resource utilization
- Liberalise the economy.
- Improve the state of infrastructures.
- Widen market.
- Fight Political instability.
- Fight corruption.
- Improve entrepreneurial skills.

- Control population growth rate.
- Diversify the economy.

13. (a). Labour saving technology is a method of production which uses more units of capital than any other factor of production especially labour.

WHILE

Capital saving technology is a method of production which uses more units of labour than any other factor of production especially capital.

(b). **Arguments for the adoption of Capital Saving technology in developing countries**.

- It is cheap and easily afforded. This is because it uses labour and its abundantly available.
- Increases employment opportunities. This is because many people are taken on to perform tasks since the method emphasizes the use of human beings to do work.
- Reduces income inequality.
- Facilitates the use of vast rural potential
- Promotes the use of local resources
- Widens tax base.
- It is useful where human judgment is paramount.
- Reduces the need to import expatriates.
- Increases the level of output.
- Reduces Social costs.
- Avoids over utilization of resources.
- Arguments against the adoption of Capital saving technology
- Leads to low productivity. This is because technology is inefficient which leads to low output produced.
- It is costly in the long run. This is due to high costs of maintaining labour e.g. feeding, wages and accommodation.
- Leads to production of low-quality goods
- Results into under utilization of resources.
- Leads to development of labour skills.
- Discourages technological development.
- Encourages labour unrest.
- It is slow and time consuming.
- It’s hard to standardize output.

14. (a). Agricultural modernization refers to the improvement of agricultural sector from subsistence farming to high yielding commercialized agriculture through employing modern techniques of production.

(b). Reason for the modernization of agriculture in Uganda.

- To increase the employment opportunities. This is because with modernization of agriculture better techniques of production are used which lead to expansion of firms and thus more jobs will be created.

- To increase the government revenue. This is because output level in the sector will increase which will increase the income of the farmers and thus a wide tax base of the government.
- To increase incomes of farmers / reduce income inequality.
- To accelerate the rate of economic growth.
- To improve on the balance of payment position / to increase the supply of foreign exchange.
- To promote technological development.
- To improve the skills of workers.
- To increase resource utilization.
- To facilitate the growth of agro based industries.
- To promote the development of infrastructure.
- To increase the quality of agricultural produce.
- To increase the supply of food.
- To ensure balance of regional development.
- To reduce rural urban migration.

(c). Challenges to agricultural modernization in Uganda.

- Unfavorable natural factors such as prolonged drought. Crops and animals die due to too much heat which reduces agricultural output.
- Fluctuation in the prices of agriculture. This frustrates farmers and they reduce output due to unstable incomes.
- High levels of conservatism of farmers.
- Poor technology.
- Political instabilities.
- Poor infrastructures.
- Poor land tenure system.
- Small market size.
- Limited capital / finances.
- Corruption / poor accountability.
- Poor entrepreneurial skills.

15. (a). Inward looking Strategy is the strategy which involves the establishment of industries at home to produce goods that were formerly / previously imported.

WHILE

Outward looking is the one which involves setting Industries at home to produce goods mainly for the external market.

(b). Positive impact of inward-looking industrial development strategy in Uganda.

- Improves the balance of payment position. This is because expenditure on imports reduces due to increased production of goods at home.
- Reduces economic dependence
- Facilitates the development of labour skills.
- Increases resource exploitation.

- Expands the manufacturing sector.
- Provides employment opportunities.
- Promotes technological development.
- Increases government revenue.
- Promotes infrastructural development.
- Controls the imported inflation.

Negative effects of inward-looking strategy

- Leads to high prices of goods. This is because of the high cost of production which compels producers to raise the prices of the products in order to earn high profits.
- Subject citizens to poor quality products.
- Leads to technological unemployment.
- It leads to consumer choice due to limited variety of goods.
- It encourages profit repatriation.
- Leads to high government expenditure through subsidization.
- Leads to rural urban migration and its related problems.
- Leads to emergency of monopoly power and its related evils.

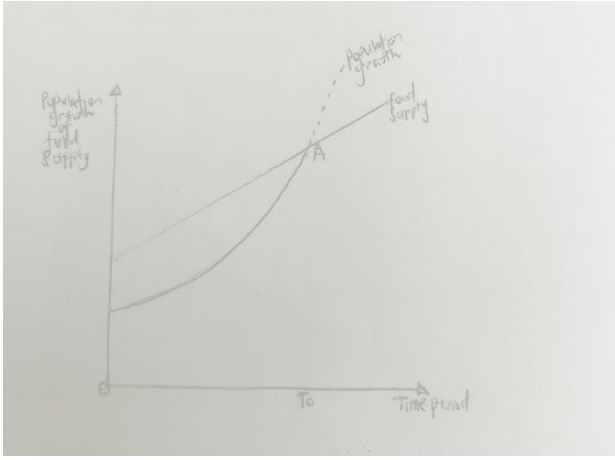
(c). **Constraints of adopting an outward looking industrial development Strategy in developing Countries.**

- Low qualities of goods. These attract few buyers in the international market leading to low export earnings.
- Inadequate capital. The industrialists are constrained financially and cannot purchase enough raw materials and hire enough skilled labour leading to low output levels.
- Protectionism policies of developed countries.
- High cost of production due to high cost of advertising.
- Limited supply of raw materials.
- Limited entrepreneurial skills.
- Low levels of technology.
- Limited skills of labour.
- Political instability.
- Poor land tenure system.

16. Malthusian theory States that whereas population growth at a geometric rate, food production tended to grow at an arithmetic rate.

Malthus stated that due to the above trend, population growth after a time would equal food production (Population Trap) and thereafter population growth would outstrip food production. There was need to control population growth using negative checks e.g. moral restraint, celibacy, otherwise positive checks would set in to reduce the population e.g. wars diseases, famine.

Illustration of Malthusian Population



A = Population trap
To = Time
Assumption of Malthusian Population theory

- Assumes a closed economy.
- Constant technology.
- Land is fixed in supply and subject to the law of diminishing returns.
- Population growth depends on food supply.
- Assumes a subsistence economy.
- Food grows at an arithmetic rate.
- Population grows at a geometric rate.

(c). **To smaller extent the Theory is relevant to Uganda.**

- The supply theory is fixed in Uganda and therefore subject to the law of diminishing returns as the theory assumes.
- Natural family planning methods suggested by Malthus e.g. celibacy are still used in Uganda.
- Some parts of Uganda experience food shortages and Malthus talks about this.
- There are land disputes in Uganda due to population pressure.
- The positive checks on population e.g. Wars, diseases exist in Uganda as predicted by Malthus.

To larger extent the Theory is irrelevant in Uganda.

- It ignores change in technology, yet technology in Uganda changes over time
- The law of diminishing returns doesn't apply all the time as the theory assumes.
- The theory ignored immigration of the population to ease pressure on land.
- Assumes a closed economy yet Uganda is an open economy.
- The theory ignores labour mobility to reduce pressure on land.
- Population growth doesn't depend on food supply alone as the theory assumes since there are other factors that affect population growth such as fertility rate.
- It assumes a subsistence economy and yet Ugandan economy is getting commercialized.

- The theory ignores improvement in the transport system that would ease the transportation of food to different parts of the country.
- Ignored the existence of foreign aid where food shortages can be addressed through relief aid.
- There is no mathematical population growth and food supply.
- The theory ignored the deliberate and scientific birth control method used in Uganda today i.e. family planning methods.
- Malthus didn't realize that rising the standards of living can cause a fall in birth rate and population.

17. (a). Structure of Uganda population.

- Dominated by the young i.e. over 40% of the population
- The population is mainly rural based
- Majority of the population is semi-skilled and skilled.
- The population is mainly engaged in Primary activities.
- High population growth rate of about 3.4%
- A big Proportion of the population lives below the international poverty line. i.e. about 35%.
- High literacy rates about 28%.
- The females are more than males about 51% of women and 49% of men.
- The population is unevenly distributed.

(b). **Positive effect of the population Structure in Uganda.**

- Encourages resource utilization.
- Reduces on the cost of proving infrastructures.
- Encourages labour mobility.
- Expands market for goods. This is because the high population growth rate increases aggregate demand in order to meet the needs of the predominantly young population.
- It increases the size of labour force / increases labour supply. This is because high population growth rate creates several job seekers who are ready to supply their labour to earn the income.
- Promotes investments.
- Increases government revenue.
- Encourages hard work.
- Awakens the government to carry out it's responsibility.
- Leads to high level of innovations and creativity.
- Reduces the cost of providing infrastructure.
- Encourages labour mobility.

Negative effects of the Uganda's population Structure

- Leads to low labour productivity. This is because a big proportion of the population is semi-skilled ort unskilled leading to low levels of efficiency.
- Leads to high dependency burden. This is because the population is predominantly young and relies on the small working population for their needs.

- Leads to unemployment and under employment.
- Limits the demand for goods / low effective demand.
- Worsens the problem of external resource dependence.
- Worsens the problem of balance of payment
- Makes planning for the population difficult.
- Leads to high government expenditure
- Leads to environmental degradation.
- Results into brain drain.
- Promotes rural urban migration and it's related problems.
- Leads to quick depletion of resources.
- Worsens the problem of income inequality.

18. (a). Nominal wage is the wage that is expressed in money terms.

WHILE

Real wage is the one that is expressed in terms of goods and services it can purchase i.e. Purchasing power of nominal wage.

(b). **Causes of low wage in Uganda.**

- Low level of output produced in case one is paid according to the output produced
- Limited time spent working in case one is paid according to time rate system.
- Limited ability of employers to pay the workers.
- Low bargaining power of labourers
- Low levels of education and skills.
- Low cost of living.
- High level of discrimination in the labour market.
- Limited risk of the job.
- Limited risks on the job.
- Limited experience on the job.
- Low demand for labour / high Supply for labour.
- High elasticity of supply for labour.
- Limited talents of the worker.
- High degree of substitutability of labour.

(c). **Factors that influence the effectiveness of labour union in determination of wages in Uganda.**

- Degree of unity among members. High degree unity improves the bargaining strength of trade union because they easily come together for a common cause while disunity among members limits the success of trade unions because the members cannot agree to fight for higher wages.
- Level of leadership in the trade union.
- Degree of political interference.
- Availability of funds.
- Level of skills of members.

- Level of employment in the country.
- Level of demand for the products produced.
- Elasticity of supply of labour.
- Level of infrastructural development.
- Level of awareness of members about their rights.
- Level of accountability of trade union leaders
- Proportion of wage bill to total cost of production.
- Degree of substitutability of labour.
- Levels of unionization / size of membership.
- Availability of other sources of income.

19. (a). Voluntary unemployment is a situation where a member of labour force who is able to work, is not ready to take up the availability job

WHILE

Involuntary Unemployment is the situation where a member of the labour force who is able and willing to work at the ongoing wage rate cannot find a job.

(b).

- To reduce the dependence burden. This is because as the unemployed secure jobs. They start earning and therefore will be in position to cater for their needs.
- To increase government revenue. This is because controlling unemployment increases job and as a result the formerly unemployed start earning which gives an opportunity to government to impose taxes on their incomes.
- To eliminate mystery among the unemployed. This as jobs increase people's income increases enabling them to acquire the basic necessities which improves living standards.
- To raise the rate of economic growth.
- To reduce immorality / crime rate.
- To reduce the rural urban migration.
- To minimize brain drain.
- To improve the skills of workers
- To reduce income inequality.
- To raise aggregate demand.
- To lower government revenue.
- To increase the resource utilization.
- To promote investment in Education.
- To avoid political tension.

(c). **The measures that have been taken to reduce involuntary unemployment in Uganda.**

- Provided tax incentives. This has reduced the cost of production and enticed many investors to set up firms, this has resulted into many employment opportunities
- Undertaken economic liberalization. This has minimized restrictions in the economy and attract many private investors to set up firms that provide jobs.
- Controlled Population.

- Provided credit facilities.
- Reformed the education system.
- Improved agriculture.
- Promoted use of appropriate technology.
- Advertised existing jobs.
- Improved land tenure System.
- Improved Political climate.
- Widened market.
- Provided special programs for disabled people.
- Promoted industrialization.

20. (a). Banking financial intermediaries are financial institutions that accept deposit from the Public, lend money and create credit.

WHILE

Non-banking financial intermediaries are financial institutions that accept deposit from the public, lend money but do not create credit.

(b). **Positive roles of foreign Banking financial intermediaries in Uganda.**

- Provide employment opportunities. This is because people perform different tasks in various branches and departments of the Bank.
- Improves international relationship. This is because friendships develop between the mother country of the Banks.
- Promote investment.
- Promote efficiency in the Banking Sector.
- Facilitate international trade.
- Promote the development of managerial skills.
- Widens the Monetary sector of the economy.
- Contribute to the development of infrastructure.
- Facilitates technological advancement.
- Increases the rate of capital inflow.

Negative roles of foreign banking financial intermediaries in Uganda

- Worsens the balance of payment position. This is because of increased capital out due to profit repatriation.
- Limits employment creation. This is because they use capital intensive technology (Automation) which is labour saving.
- Out compete local Banks.
- Result into rural urban migration and its related problems.
- Make it difficult for the central Bank to implement monetary policy.
- Limit Mobilisation of Savings.

(c**). Factors that limit the operation of banking financial intermediaries in Uganda.**

- High level of poverty. This limits the number of clients in the banks leading to smaller bank deposits.

- Limited the number of creditworthy customers.
- Political interference.
- Political instability.
- Limited supply of skilled labour.
- Low levels of accountability in Commercial banks.
- Stiff competition with other financial institutions.
- High liquidity preference among the public.
- Poor infrastructure.
- Ignorance of the public about banking facilities.

21. (a). Fiscal policy is the deliberate policy of using government revenue (taxation) and expenditure programs to regulate the level of economic activities in the economy.

While

Monetary policy is the deliberate government policy through the central bank to regulate money supply to achieve certain objectives e.g. price stability.

(b). **Bank rate / Discount rate / Central bank rate.**

This is the rate at which the central bank leads to commercial bank. The central bank increases the Bank rate in order to reduce credit creation because it compels commercial Banks to increase lending rates to customers and discourage borrowing from other Banks.

On the other hand, the central bank lowers the Bank rate to increase credit creation since it encourages commercial Banks to lower lending rates to customers by making borrowing cheaper.

- Legal reserve requirement. It is the minimum amount of money that commercial Banks must keep with the central banks. It is legally set.
- The central Bank increases the legal reserve requirement to reduce the loanable funds and discourages credit creation. On the other hand, the central Bank lowers the legal reserve requirement to increase loanable funds and increase credit creation.
- Cash ratio / Variable reserve requirement.
- Margin requirement.
- Rationing of credit.
- Selective credit control.
- Special deposits.
- Moral Suasion.

(c). Factors that influence the capacity of the central Bank to regulate credit creation in Uganda.

- The level of liquidity preference. High liquidity preference limits the operation of monetary policy because the amount of money is not taken to commercial Banks and the central bank has no access to it case it wants to reduce credit creation.

On the other hand, low liquidity preference improves the operation of monetary policy because much of the money is deposited in the commercial Banks and the central Bank easily accesses it in case it wants to reduce credit creation.

- Level of liquidity in commercial Bank. High level of liquidity in commercial Banks limits the operation of monetary policy because even when the central Bank raises the Bank rate to discourage borrowing, the commercial Banks simply continue because they have enough cash and have no need of borrowing from the Central Bank.

On the other hand, low levels of liquidity in commercial Banks improves the operation of monetary policy because commercial Banks borrow from the Central Bank and quickly increase lending rate the moment the central Bank increases Bank rate.

- Size of the monetary policy.
- Nature of distribution of commercial Banks.
- Degree of external interference.
- Levels of accountability by the central Bank officials.
- Levels of co-ordination of government objectives.
- Degree of effectiveness in the use of Commercial Banks.
- Levels of awareness of the public about the facilities offered by the commercial Banks.
- Degree of external interference especially by international monetary fund.

22. (a). Cost Push inflation is the persistent increase in the general price level of goods due to rising cost of production. E.g. rising prices of raw materials.

WHILE

Structural inflation is the persistent increase in the general price level due to supply rigidities resulting into shortages of goods.

(b). Causes of inflation in developing countries.

- Excessive issuance of currency. This leads to excessive money supply which is followed by an increase in supply. It increases aggregate demand forcing the prices of goods to rise.
- Excessive credit creation.
- Excessive inflow of income from abroad.
- Excessive or uncontrolled credit creation.
- Excessive borrowing of money from the central Bank by the government.
- Break down of infrastructure e.g. Roads become impassable during the rainy season. It makes it hard to transport goods from areas of production to market especially in the agricultural sector. This leads to shortages in different parts of the country forcing prices to rise.
- Political instability.
- Unfavourable natural factors.
- Raising production costs.
- Speculation by traders.
- Excessive exportation of essential goods.
- Depreciation of local currency.
- Importation of goods from a country experiencing inflation.

(c). Measures that can be taken to control inflation in developing countries.

- Increases direct taxes. This will reduce disposable income and reduce people's purchasing power which eventually reduces aggregate demand leading to the fall in prices.
- Reduce government expenditure. This will reduce the amount of money in circulation and bring down aggregate demand forcing prices to reduce.
- Control issuance of currency.
- Reduce government borrowing from the central Bank.
- Employ a restrictive monetary policy.
- Improve the state of infrastructure e.g. build better roads; this will ensure usage of roads in all the seasons and ensure effective distribution of goods and eliminate shortages leading to fall in prices.
- Liberalize the economy.
- Privatize public enterprises.
- Provide investment incentives.
- Improve political climate.
- Modernize agriculture.
- Encourage import substitution industries.
- Control exportation of essential goods.
- Set maximum price.

23. Role of National budget in an economy.

- Creation of employment opportunities. The budget increases government expenditure on employment creation programs from giving subsides to producers which attracts more investors for Job creation.
- Controls inflation. The budget provides for increased progressive taxation where the rich are taxed more than the poor this lowers people's disposable income.
- Improves balance of payment position.
- Protects infant industries.
- Discourages the consumption of harmful goods.
- Reduces income inequality.
- Raises government revenue.
- Influences investment levels.
- Accelerates the rate of economic growth.
- Creation of balanced regional development.
- Rallies the public behind government.
- Regulates government expenditure.
- Reduces the economic dependence.

(b). Causes of Budgetary deficit in developing countries.

- Over ambitious planning by the government. This compels government to spend a lot of money on numerous infrastructural development which is way above its earning.
- High levels of corruption.
- Political instability.

- Expenditure requirements abroad.
- Population growth control measures
- Heavy external debt i.e. debt repayment.
- Narrow tax base.
- Weak tax administration.
- Limited non-tax sources of income.

(c). Measures that may be taken to reduce budgetary deficit in developing countries.

- Privatize state enterprises. This will reduce government expenditure on subsidization of state enterprises and at the same time privatized enterprises are taxed which widens the tax base.
- Restructure foreign Missions.
- Encourages cost sharing.
- Retrench civil servants.
- Fight corruption.
- Improve tax administration
- Control population growth rate.
- Campaign for debt relief.
- Fight political instability.
- Increase non-tax sources e.g. licenses.

24. A public debt is the total borrowing of central government, local government and public corporations whether internal or external borrowing

WHILE

National debt is the debt incurred by the Central government excluding local government and public corporations borrowing. This may be internal or external borrowing.

(b). Reasons for incurring public debt by the Countries.

- To ease the burden of taxation on the citizens, the government will concentrate on borrowing to increase the revenue for its expenditure and will not levy taxes.
- To raise the funds currently needed for the public expenditure. Borrowing will raise a lumpsum amount of money to supplement the little revenue raised from taxes.
- To finance the balance of payment deficit. Borrowing will increase the supply of foreign exchange into the country.
- To supplement tax, revenue
- To control inflation
- To fill the saving-investment gap.
- To alleviate the effects of natural calamities.
- To maintain the market of goods by leaving citizens with adequate disposable income
- To maintain a given level of employment.
- To pay back debt acquired earlier.

(c). Methods used to redeem the public debt in an economy.

- Appealing for debt cancellation / writing off debt. The recipient country negotiates with the donor to be relieved of the debt accumulated.

- Sinking fund. The government sets aside a fund from the revenue collected with the aim of paying back the date.
- Debt conversion. The government acquires a low interest loan to replace it with a high interest loan.
- Debt rescheduling. The recipient negotiates for the extension of maturity date.
- Using foreign exchange reserves.
- Disinvestment
- Debt repudiation.
- Operation of Surplus budget
- Appealing for donations and grants
- Printing more money.

25. Protectionism is the deliberate policy of government to restrict international trade using trade barriers e.g. tariffs.

(b). Tools of protectionism used in an economy.

- Tariffs/taxes. This is the tax imposed on imports to discourage importation. i.e. the government imposes high tax to make its importation expensive.
- Subsidization of domestic industries. This lowers the production cost of local firms so as to sell goods at lower prices and out compete the imported goods.
- Total ban / embargo (es). The government totally outlaws the importation of certain goods.
- Quota System. This is a quantitative restriction; the government sets a maximum amount to be imported and cannot be exceeded.
- Licensing. The government limits the number of licenses to be issued to importers and many importers are discouraged.
- Administrative control e.g. roadblocks, bureaucratic delays e.t.c cause inconveniences to the importers seeking for licenses and they give up.
- Quality control measures. The government sets very high-quality standards to be met by the importers and some give up due to the failure to reach the standards.
- Devaluation of currencies. The government lowers the value of it's currency in terms of others which makes imports too expensive to buy.

(c). Positive effects of protectionism in an economy.

- Protects infant industries. It makes Imports expensive & people prefer locally manufactured goods which are cheaper.
- Discourages the consumption of harmful goods. The government bans the importation of such goods and the consumers have no access to them.
- Discourages imported inflation. The government bans the importation of goods from inflation prone countries.
- Prevents dumping.
- Improves the balance of payment position.
- Creates employment opportunities.

- Improves terms of trade.
- Reduces economic dependence
- Raises government revenue.
- Increases resource utilization.
- Helps retaliate against tariffs set by another country.

Negative effects of Protectionism

- Subject nationals to low quality of goods. This is because most of the high-quality goods are locked out of the country and people rely on the poor-quality goods produced locally.
- Subject nationals to highly priced goods. This is because the local industries enjoy monopoly power and take advantages to charge high prices.
- Limits consumer choice.
- Results into conflicts between countries and hence retaliation.
- Government loses revenue.
- Leads to high government expenditure.
- Encourages trade malpractices
- Infant industries sometimes fail to grow.
- Discourages specialization and its associated advantages.

26. (a). **Balance of payment** is the difference between the countries receipt from both visible and invisible exports and the expenditure on both visible and invisible imports including Capital inflows and outflows in a given period.

WHILE

Terms of trade is the ratio of price index of exports to the price index of imports.

(b). Causes of balance of payment disequilibrium in Uganda. (B.O.P deficit)

- Low volume of exports. This results into low export earnings amidst high export expenditure.
- Exportation mainly of primary products with low value added. They are sold at low prices leading to low export earnings.
- Trade restrictions in the foreign market; this reduces the demand for exports leading to low prices and hence low export earnings.
- Weak bargaining power of Uganda in the foreign market. The buyers set low prices for our exports leading to low export earnings.
- Limited variety of goods. This leads to low export earnings amidst high import expenditure.
- Flooding of export markets. This lowers the price of exports leading to low export earnings.
- High expenditure on debt servicing and repayment.
- Heavy Government expenditure abroad on foreign missions and foreign trade.
- Heavy expenditure on importation of firearms.
- High capital outflow due to profit repatriation.
- High marginal propensity to import.
- Importation of expensive goods.

(c). Measures that can be taken to correct a balance of payment disequilibrium in Uganda.

- Impose restrictions on imports. This will reduce on the volume of imports and reduce import expenditure.
- Promote import substitution industries. This will reduce the volume of imports due to increased domestic production and reduce import expenditure.
- Apply for debt cancelling. This will reduce the burden and reduce the expenditure on debt payment and servicing.
- Undertake the depreciation of the currency. This will make imports very expensive and discourages buyers leading to a fall in import expenditure.
- Diversify exports. This will increase the variety of exports and raise export earnings.
- Strengthen international commodity agreements.
- Liberalize the economy.
- Diversify export markets.
- Improve the quality of exports.
- Fight political instability.

27. (a). **Customs Union** is a form of economic co-operation where member states remove tariffs amongst themselves and agree on a common external tariff.

WHILE

A common market is a form of economic co-operation where member states remove tariffs amongst themselves, agree on a common external tariff and there is free mobility of factors of production. X

(b). Merits of economic co-operation in developing countries.

- Increases the volume of trade among member countries. This is because goods move freely within the bloc without barriers (trade creation).
- Leads to expansion of the manufacturing sector. This is because the widened market encourages producers to set up industries and increase profits.
- Promotes resource utilization.
- Member countries have easy access to foreign resources.
- Reduces the average cost of carrying out research.
- Improves the quality of goods.
- Increases the bargaining power of the member countries.
- Improves infrastructure.
- Promotes international relationships.
- Creates employment opportunities.
- Increases economic growth.
- Promotes investment in the region.
- Provides a variety of goods in the region.

Demerits of economic co-operation in developing countries

- Leads to trade diversion / reduces the volume of trade. This happens when the member countries starts trading with high cost member countries.

- Leads to loss of government revenue. This is because goods move freely within the region without charging custom duties.
- National interests are compromised.
- Benefits in the co-operation tend to flow more to developed countries in the region.
- High costs of staffing.
- Creates interdependence among countries.
- Subjects nationals to poor quality goods.
- Leads to uneven distribution of industries.

(c). Factors that undermine the economic co-operation among developing countries.

- Countries produce similar goods. This means that they cannot trade with each other and look elsewhere for the market.
- Failure to share benefits equitably. Benefits from the co-operation tend to move to countries that are more developed and other countries that are not benefiting give up
- Differences in the political ideologies.
- Fear of loss of customs revenue.
- Political instability.
- Differences in economic policies.
- Conflicts / disagreements among leaders.
- External interference especially by the Donors.
- Poor infrastructure
- Lack of Support by the Nationals
- Limited geographical proximity.
- Small population Size / Small market.

28. (a). Feature of a good development plan.

- Comprehensive
- Consistence
- Should be compatible
- Should have a sequence.
- Proportional.
- Should be Optimal.
- Should be economically feasible.
- Should be politically acceptable.
- Socially relevant.
- Should be internationally relevant.

(b). Reasons for economic development planning in developing countries.

- To correct the defects of price mechanism. This is because adequate planning will be made to cater for the rapid structural changes in the economy by reserving funds for that purpose.
- To optimally utilize the resources. Adequate planning will be made to put resources to their best use and ensure effective allocation and use of resources.

- To mobilize resources both locally and internationally. Plans will be made to collect revenue from various sources of government as well as borrowing from other countries.
- To solicit for foreign aid. The donors will require well formulated plans in order to give aid i.e. they need to know areas that require aid before they give it.
- To improve the balance of payment position. The government will plan to improve import substitution industries that will reduce the volume of imports and cut import expenditure.
- To attain price stability. The government plans to employ restrictive monetary and fiscal policies to minimize the inflation i.e. government may raise direct taxes to reduce disposable income and cut aggregate expenditure.
- To determine the rate of economic growth.
- To reduce the gap between the rich and the poor.
- To identify areas suitable for public and private investment.
- To encourage public participation.
- To reduce economic dependence.
- To reduce Unemployment problem.
- For harmonious and consistent use of resources.
- To relate the present to future trends and targets. It will make sequencing of projects possible i.e. Implementation of current is done so as to facilitate the implementation of future plans.

(c). Measures that can be taken to enhance the effectiveness of economic development planning in developing countries.

- Ensure proper data collection. This will enable the planning Machinery to make realistic targets that are achievable.
- Minimize the political interference in planning. This will ensure that the funds budgeted for planning are well utilized without being diverted by politicians to suit personal political endeavors.
- Ensure government commitment to the planning process. This will enable the government commit adequate finances to the formulation and implementation of the plans.
- Ensure stable political climate. This will provide a conducive environment to the plan implementers without intervention in their activities.
- Train the planning machinery. This will provide adequate supply of skilled manpower that will collect valid information and formulate achievable plans.
- Raise enough funds. This will enable adequate financing of the planned projects in time.
- Make achievable plans.
- Reduce the dependence on foreign aid.
- Develop infrastructure.
- Encourage proper accountability.
- Sensitize the public on the importance of planning.
- Reduce the external influence.

- Fight inflation.
- Reduce the dependence on the natural factors.

29. (a). Role of public sector in Uganda.

- Promotes investment in the economy. This is done by formation of institutions that identify investment opportunities and look for investors.
- Minimizes duplication of economic activities, this is because it reduces unnecessary competition i.e. reduces resource wastage.
- Creates employment opportunities. The government sets up public enterprises on a large scale and they spread in different parts of the country for employment creation.
- Provides goods of strategic importance e.g. manufacture of firearms.
- Provides essential goods for fair prices.
- Promotes resource utilization.
- Reduces economic dependence.
- Provides investment in areas that require heavy capital investment.
- Mobilizes savings.
- Regulates the private monopoly.
- Reduces income inequality.
- Stabilizes the prices of goods.
- Raises government revenue.
- Prevents consumer exploitation.

(b). Reasons why public enterprises were privatized in Uganda.

- To reduce corruption. The owners of the private enterprises would become keener and stricter about financial management and promote proper accountability.
- To attract foreign investment. The foreigner's country would gain confidence and come to investment after getting assurance that their investment is safe and cannot be nationalized.
- To reduce on the government expenditure.
- To improve relations with donors.
- To create employment opportunities.
- To encourage competition.
- To increase the government revenue.
- To promote resource utilization.
- To reduce bureaucratic tendencies.
- To encourage innovation and creativity.
- To allow government concentrate on the provision of essential services.
- To improve on the balance of payment position.
- To control structural inflation.
- To accelerate on the rate of economic growth.
- To enable enterprises, earn more profits.

(c). Challenges faced by private sector in Uganda.

- Limited market for goods. This limits the earning of private investors, they become reluctant to set up firms.
- Poor technology. This raises the cost of production and reduces the profits of private investors.
- Limited investment incentives. This increases the cost of doing Business and many investors are discouraged due to low profits.
- Limited entrepreneurial skills.
- Limited capital.
- Poor infrastructure.
- Limited labour Skills.
- Political instability.
- High rates of inflation.
- Corruption / Poor accountability.
- Unfavorable natural factors.
- Poor land tenure System.
- High degree of conservatism.