ECONOMICS

SEMINAR GUIDE

With clear explanations

Gadafi - 0702 820 109

Faisal - 0702 705 176

Esau - 0755 959761

BUDDO SECONDARY SCHOOL

ECONOMICS SEMINAR GUIDE HELD ON SATURDAY 7TH OCT. 2023.

SECTION A

1. **(a)(i) Distinguish between composite demand and complementary demand.**

Composite demand is the total demand for a good with many uses/which can be used for more than one purpose.

While

Complementary demand is demand for commodities that are used together such that an increase in demand for one commodity increases the demand for the other.

(ii) Give any two examples of composite demand in an economy.

- Demand for electricity ***used for ironing, lighting, cooking.***
- The demand for wool ***for cloth making, cushioning, cleaning etc.***
- The demand for sugar ***for baking, sweetening drinks, brewing etc.***
- Demand for Iron and steel ***for construction, furniture making, manufacturing etc.***
- Demand for clay ***for making pots, bricks, cups, stoves etc.***
- Demand for skins and hides ***for making shoes, bags, belts etc.***
- Demand for cloth ***for adornment, protection, warmth etc.***
- Demand for an axe for ***hewing/splitting, cutting, tool of defence.***
- Demand for timber ***used for construction, furniture making, ornaments***

(b) State any four salient features of the agricultural sector in Uganda.

- Mainly rural based
- Mainly depends on nature.
- Mainly uses/employs semi-skilled and unskilled labour.
- Mainly produces poor quality output.
- Mainly produces for the local /domestic market.
- Dominated by subsistence production.
- Mainly uses simple tools/ labour intensive technology/poor technology.
- Mainly carried out on a small scale.
- Mainly depends on family labour.
- Mainly food stuffs are produced (narrow range of cash crops are produced)
- The quantity of output is generally low.
- There is a narrow range of products for export.

(c)(i) Define non -tax sources of public revenue.

Refers to sources of government revenue other than taxation.

(ii) Mention three examples of non -tax sources of public revenue.

- Fees
- Fines and penalties
- Gifts and grants
- Market dues

- Borrowing/ Loans
- Profits/proceeds from government productive activities e.g. profits from **parastatals**.
- Fundraising drive
- Compulsory saving schemes.
- Disinvestment/privatization
- Rent on government owned property
- Rates – money charged by government on use of public utilities e.g. **piped water**
- Licensing
- Road toll
- Forfeitures
- Special assessments.

(d)(i) Differentiate between currency devaluation and currency depreciation.

Currency devaluation is the legal /official lowering/reduction of the **value** of the country's currency in terms of other currencies (under a fixed exchange rate system).

Or

Currency devaluation is the lowering of the **value** of the local currency against foreign currencies by the central bank/government/monetary policy.

While

Currency depreciation is the fall in the **value** of the local currency against foreign/other currencies as a result of the interplay of the market forces of demand and supply in the foreign exchange market.

(ii) State two conditions necessary for currency devaluation to be successful.

- Supply of imports should be price elastic
- Demand for exports should be price elastic.
- Demand for imports should be price elastic
- Supply for exports should be price elastic
- The marginal prosperity to import must be low.
- Competing countries should not devalue at the same time.
- Devaluing countries should be free from inflation.
- There should be absence of trade barriers/ restriction in the export markets
- There should be a fixed exchange rate system.

(e)(i) Define government multiplier.

Government multiplier is the number of times by which an **initial** change in government expenditure multiplies itself to give a **final** change in the level of national income

(ii) Given that a country initial national income is shs. 85million and MPS is 2.5. If the government expenditure increases from shs. 260 million to shs. 300 million; Calculate;

- **The value of the multiplier.**

$$\text{Multiplier} = \frac{1}{MPS} = \frac{1}{0.4} = 2.5 \text{ times}$$

Change in national income = Change in government expenditure x Multiplier
= (Shs. 300 million - Shs. 260 Million) x 2.5
= Shs. 40 million x 2.5
= Shs. 100 million.

- **Final level of income.**

Final level of national income = Change in national income + Original income
= Shs. 100 million + Shs. 85 million
= Shs.185 million or Shs.185, 000,000,000.

SECTION B

PRICE THEORY:

2. (a) **Distinguish between price elasticity of demand and elasticity of demand.**

Price elasticity of demand (PED) is the measure of degree of responsiveness of quantity demanded of a commodity **to changes in the price of the commodity**.

While;

Elasticity of demand is the measure of degree of responsiveness of quantity demanded of a commodity **to changes in other factors that affect demand** for the commodity.

(b) **Account for the price inelastic demand for a commodity in an economy.**

- High income of the consumer – ***can afford to buy it.***
- Absence of substitutes – ***have no cheaper alternatives.***
- High level of addiction – ***can't do/live without it).***
- High degree of durability – ***can be used for a long time without replacement.***
- High degree of necessity – ***can't do/live without it).***
- Small fraction/proportion of consumer's income spent on the commodity – **doesn't feel the burden of the price increase.**
- High level of advertisement – ***buyer is convinced that the product is better than others.***
- High level of convenience in getting the commodity- ***consumer doesn't find difficulty in getting it.***
- Short run period – ***time is too short to find cheaper alternatives.***
- Limited possibility of postponement of demand for a commodity- ***the commodity is urgently needed.***
- Favourable Seasons – ***there is apparent need for the commodity.***
- High degree of complementarity in use of a commodity – ***the two commodities must be used together.***
- Expectation of price increase.
- Limited number of uses to which the commodity can be put/single use of a commodity.

3. (a) **Distinguish between competitive supply and joint supply.**

Competitive supply is **supply of two or more** commodities that use the **same resources for their production** such that an **increase in supply of one commodity** leads to a **decrease in supply of the other commodity.**

While

Joint supply is **supply of two or more commodities** from the **same process of production** such that an **increase in supply of one commodity** leads to **increase in supply of the other commodity.**

(b) **Explain the factors responsible for instability in supply of goods and services in an economy.**

- **Change** in land tenure system -. ***Increases/reduces access to land hence increased/reduced production.***
- **Change** in the costs of production – ***increases/reduces the profits of firms.***
- **Change** in state/level of technology - ***increases/reduces efficiency in production.***
- **Change** in government policy on production - ***increases/reduces*** **the cost of production** – ***increases/reduces the profits of firms.***
- **Change** in number of producers/firms/suppliers ***increases/reduces competition among producers.***
- **Change** in the market size – ***increases/reduces the sales and profits of firms.*** .
- **Change** in supply of factor inputs – ***producer is able to buy more/fewer raw materials hence increased/reduced production.***
- **Change** in the level of development of infrastructure - ***increases/reduces*** **the cost of production** – ***increases/reduces the profits of firms.***
- **Change** in political climate - ***increases/reduces safety for life and property of producers.***
- **Change** in entrepreneurial skills – ***increases/reduces ability to organize and mobilize factors of production.***
- **Change** in natural factors especially in agricultural sector.
- **Change** in goal/aim /objective of the firm/producer.
- **Change** in price of **competitively supplied** commodities e.g. butter and cheese.
- **Change** in price of **jointly supplied** goods e.g. beef and hides.
- **Change** in the efficiency of factors of production.
- Expectation of future price **changes** of the commodity.

PRODUCTION THEORY:

4. (a) **Distinguish between location of an industry and localization of an industry.**

Location of an industry is **a place /site** where **an industry is established/setup.**

Or is the setting up/establishment of an industry in an area.

While

Localization of an industry is the **concentration of firms** producing **related products** in an area to enjoy **external economies of scale.**

(b) **What are the implications of localization of firms in Uganda?**

Positive implications of localization of firms.

- Promotes development of infrastructure – ***many firms force gov't to set up roads.***

- Creates more employment opportunities– ***many firms provide jobs to people.***
- Widens consumer choices – ***many firms provide a variety of goods.***
- Promotes resource utilization – ***due to increased demand for raw materials by many firms.***
- Leads to low prices of final products – ***due to competition among firms to attract buyers.***
- Leads to increased government revenue – ***gov't imposes taxes on incomes of workers.***
- Leads to improved quality of output - ***due to competition among firms.***
- Leads to increased output – ***due to increased production by many firms.***
- Leads to cooperation of industries in solving common problems.
- Leads o development of a pool of skilled labour.
- Leads to expansion of markets for the products.
- Promotes forward and backward linkages.
- Promotes specialization and its advantages.

Negative implications of localization of firms.

- Leads to regional imbalance in development – ***the localized area develops faster than other areas.***
- Leads to rural urban migration and its evils - ***the localized area attracts many people from rural areas to urban areas looking for jobs.***
- It over strains the available infrastructure in the area - ***many people in the area over use infrastructure.***
- Leads to income inequality – ***employed people in the localized area earn higher incomes than their counter parts in other areas.***
- Leads to quick exhaustion of resources – **due to increased demand for raw materials in the localized area**– ***firms over exploit resources.***
- Leads to increased cost of land – ***due to competition for land in the localized area.***
- Leads to displacement of people – ***investors buy land meant for settlement to expand industries.***
- Increases pollution /social costs - ***many firms release poisonous gases into the atmosphere.***
- Leads to increased cost of labour– ***due to competition for skilled labour in the localized area.***
- Leads to rising cost of living in the area - ***due to competition for services in the localized area – such services become expensive.***

<u>MARKET STRUCTURES:</u>

5. (a) **How does monopoly arise in an economy?**
   - Long distance between firms –***each producer controls the market in his locality.***
   - Merging of firms - ***two or more firms join to operate as one.***
   - Patent/copyrights – ***gives exclusive rights to inventors to sell a commodity making entry of new firms difficult.***
   - Exclusive ownership of strategic (natural) resources/inputs – ***other firms can't access the raw material which leaves the resource owner to enjoy monopoly.***
   - Possession of exclusive technique of production by a firm – ***because the would be competitors are unable to produce the same commodity.***

- Acts of parliament – *some monopolies are established by law which prohibits other firms from joining the industry.*
- Small market size – *the market is too small to allow other firms to operate since entry of other firms becomes uneconomical.*
- Limit pricing policy/aggressive price *wars - an existing firm sets a low price to discourage entry of would be competitors.*
- High initial capital requirement –*this prohibits other firms to enter the industry and leave only that firm that can afford to raise the capital .*
- Long periods of training required e.g. architects, accountants etc. –*this creates monopoly for people with skills in the short run because it takes a long time for competitors to acquire the required skills.*
- Possession of unique talents.
- Product differentiation.
- Protectionism in international trade/foreign trade barriers (restrictions).

(b) Suggest the measures that may be adopted to reduce monopoly power.

- Reduce on the period of patent rights - *enable new firms to enter the industry and increase competition.*
- Strengthen bureau of standards - *can ensure production of quality products.*
- Adopt anti-monopoly laws – *can prohibit firms from merging to maintain competition.*
- Form consumer associations – *to increase awareness to consumers about prices to reduce consumer exploitation.*
- Impose taxes – *can increase c.o.p and reduce on profits of monopolists – limit expansion.*
- Liberalize the economy- *can attract new firms in the market hence promote competition.*
- Set a maximum price – *can make it illegal for a monopolist to sell above that price.*
- Widen market - *to attract new firms to engage in production to control private monopoly.*
- Provide subsidies to weak firms – *can reduce the c.o.p and allow them to continue in production and create competition in the market.*
- Privatize state monopoly firms – *can allow other new firms to engage in production of goods previously produced by state monopolies.*
- Reduce foreign trade restrictions/barriers – *can increase competition and promote efficiency of domestic firms.*
- Develop infrastructure – *can enable establishment of rival firms in other parts which can increase competition.*
- Nationalize private monopolies.
- Provide affordable capital for the establishment of rival firms.

(c) What are the problems that arise from the existence of monopoly?

- Monopoly promotes consumer exploitation - *b'se of high prices charged.*
- There is production of low/poor quality output - *due to absence of competition.*
- Limits consumer choices – *due to limited variety of goods and services to consumers.*
- Monopoly firms produce at excess capacity- *because of the profit motive a monopolist restricts output to charge high price and maximize profits.*
- Limited innovations and inventions - *due to absence of competition.*
- It leads to exploitation of workers – *thru paying workers low wages.*

- There is a problem of income inequality.
- Monopoly firms cause underemployment and unemployment of labour.
- Monopoly firms exert pressure on government especially in decision making.

6. (a) **Differentiate between oligopoly and duopoly.**

Oligopoly is a market structure where there are ***few firms with many buyers dealing in either homogeneous products or differentiated products.***

While

Duopoly is a market situation characterized by only **two firms in the industry**.

(b) **What are the differences between monopoly market structure and oligopoly market structure?**

- Under monopoly market structure there is existence of a **single firm** while under oligopoly market structure there is existence of **few firms.**
- Under monopoly market structure entry of new firms is **blocked** while under oligopoly market structure entry of new firms is **restricted.**
- Under monopoly market structure there is **no persuasive advertisement** while under oligopoly market structure there is **wide spread persuasive advertisement**
- The demand curve under monopoly market structure is **inelastic** while that of oligopoly market structure is **kinked.**
- Under monopoly the commodity produced has **no close substitutes** while under oligopoly market structures firms **produce either homogeneous or differentiated** commodities

(c) **How do oligopoly firms increase their market share?**

- Use of wide spread persuasive advertisement over radios and televisions.
- Provision of aftersales services e.g. free transport services.
- Offering gifts to customers such as soap, scholastic materials, T-shirts, key holders.
- Opening up branches or distribution points
- Sponsoring sports events and this is common with MTN, Airtel, Crown bottlers etc.
- Use of appealing brand names, trademarks and slogans to attract many customers.
- Distributing free samples of commodities to customers so as to attract them.
- Quality improvement of products produced by firms for example unleaded petrol by Shell.
- Use of attractive packaging of commodities.
- Provision of credit facilities or installment selling.
- Organizing raffle draws and consumer games where winners are rewarded highly.
- Organizing trade fairs and exhibitions to make customers aware of the product.
- Use of one stop shopping centres e.g. shopping centres at petrol stations.

NATIONAL INCOME:

7. (a) **How are price indices computed?**

- Choosing a suitable base year – *a year where prices are relatively stable.*
- Selecting a representative basket of goods – data is collected on goods consumed by majority of people.
- Collecting retail prices for selected goods in the basket for both current year and base year.

- Calculating the simple price index/price relative for <u>each commodity</u> in the basket

$$Simple\ price\ index = \frac{Current\ year\ price}{Base\ year\ price} X\ 100$$

- Calculating the average simple price index/average price relative for the <u>entire basket</u>.

$$Average\ simple\ price\ index = \frac{Sum\ of\ price\ indices}{Number\ of\ items}$$

- Attaching weights to selected goods in the basket – ***relative importance attached to goods.***
- Calculating the weighted price index for <u>each commodity</u> in the basket

$$Weighted\ price\ index = Simple\ price\ index\ X\ Weight$$

- Calculating the average weighted price index for the entire basket.

$$Average\ weighted\ price\ index = \frac{sum\ of\ weighted\ price\ index}{sum\ of\ weights}$$

(b) Explain the problems encountered during the computation of price indices.

- Difficulty in choosing a suitable base year – ***it is difficult to find a year with stable prices.***
- Difficulty in selecting a representative basket of goods ***-difficult to find goods consumed by all people.***
- Changes in price levels over time – ***makes it hard to have standard prices.***
- Changes in tastes and preference – ***makes it difficult to select a representative basket of gds.***
- Limited skilled labour – ***makes it hard to collect accurate information.***
- Difficulty in attaching weights to goods ***–due to varying importance attached to gds by p'ple.***
- Appearance of new products and exit of old ones ***–distorts representative basket of goods.***
- Limited information – ***information regarding prices, consumer's expenditure, etc is difficult to get.***
- Limited facilities to store and collect data –***this delays collection and analysis of data.***
- Variation in prices in different areas - ***makes it hard to decide the prices consider for goods in the basket.***
- Absence of standard weights and measures.
- Absence of uniform prices due to use of bargaining in price determination.
- Improvement in quality that may lead to increase in prices.

8. (a) Distinguish between Nominal Gross Domestic Product and Real Gross Domestic Product

Nominal Gross Domestic Product is the ***total money/monetary value*** of all **final goods and services** produced within the country (within the geographical/territorial boundaries of a country) in a **given year valued at current year prices**.

While

Real Gross Domestic Product is the **total money/monetary value** of all **final goods and services** produced within the country (within the geographical/territorial boundaries of a country) in a **given year** valued at **base year prices**.

(b) What benefits arise from an increase in Gross Domestic Product (GDP)?

- It increases government revenue – ***gov't imposes taxes on profits of firms.***
- It promotes development of infrastructure – ***gov't is forced to set up infra eg. Roads.***
- It improves balance of payment position – ***output is exported.***
- It provides employment opportunities – ***various investments set up create jobs.***
- It promotes innovations and inventions/technological transfer- ***investors undertake research into modern technology to increase output.***
- It improves skills of labour – ***people are trained to get skills.***
- Promotes utilization of local resources – ***resources put to use increase to production.***
- It widens consumer choices – ***variety of gds produced from different economic activities.***
- It controls inflation – ***due to increased production. .***
- It promotes development of entrepreneurial skills.
- Reduces income inequality.
- It promotes industrialization/diversifies the economy.
- It monetizes the economy/promotes commercialization the economy.
- Reduces dependence on other countries.

ECONOMIC GROWTH AND DEVELOPMENT:

9. (a) Distinguish between economic growth and economic development.

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

While;

Economic development is the persistent increase in the quantity and quality of goods and services produced in a country in a given period of time.

(b) Assess the implications of economic growth in Uganda.

Positives:

- It increases government revenue - ***through imposing taxes.***
- Promotes development of infrastructure - ***government is forced to set up infrastructure like roads.***
- It improves balance of payment position- ***output produced is exported.***
- It increases employment opportunities -***various investments set up to produce goods hire people.***
- It promotes technological development/transfer -***through research and importation of modern technology.***
- It improves labour skills- ***through on job training.***
- It promotes industrialization - ***domestic industries are set up to increase output***
- It widens consumer choices - ***through production of variety of goods.***
- It controls inflation -***increased prodn – prices reduce increases supply of goods.***
- It promotes exploitation of local resources - ***resources are put to use increase output.***
- It reduces dependence on other countries -***through increasing domestic production.***
- It reduces conservatism - ***people adopt new ideas through interaction with foreign investors***

Negatives:

- It increases social costs/it leads to pollution - ***many industries set up emit poisonous gases into the atmosphere.***
- Worsens income inequality -***people with more resources produce more goods and earn higher incomes compared to investors with limited resources***
- There is resource exhaustion -***resources are over exploited to increase output.***
- It leads to rural migration and its evils - ***due to concentration of many activities in urban areas.***
- It leads to technological unemployment - ***producers adopt use of machines to increase output – loss of jobs.***
- Results into profit repatriation - ***many firms are owned by foreigners.***
- Promotes cultural erosion.
- Leisure is foregone since economic growth requires hard work.
- Involves sacrificing current consumption for future investment.
- Leads to production of poor quality output.
- Leads to imbalance in regional development.
- Increases debt burden.

10. (a) Distinguish between the balanced and unbalanced growth strategy

Balanced growth strategy advocates for **simultaneous and harmonious investment in all sectors** of the economy so that they **complement each other** and grow more or less at the same pace.

While

Unbalanced growth strategy advocates for **investment in key few leading sectors** of the economy first and others develop later through **linkages.**

(b) Explain the factors that <u>have affected</u> the level of economic growth in developing countries

<u>N.B:</u> State neutral points but **explain in past tense (use has/have).**

- Government policy on investment– ***cost of production - profits.***
- Level of resource exploitation/utilization – ***supply of raw materials.***
- Level of entrepreneurial skills – ***ability to undertake risks, organize and mobilize f.o.ps.***
- Level of accountability– ***avails funds to investors.***
- Level of technology/state of technology – ***efficiency in production.***
- Political climate/atmosphere– ***safety for life and property.***
- Level of savings – ***avails funds to investors to purchase raw materials.***
- Labour skills – ***efficiency in production.***
- Market size – ***sales and profits.***
- Size of capital stock/availability of capital –***avails funds to investors.***
- Level of development of infrastructure – ***cost of production - profits.***
- Population growth rate – ***dependence burden - savings.***
- Rate of inflation – ***cost of production - profits.***
- Nature of land tenure system – ***accessibility to land by investors.***
- Level of monetization of the economy / size of subsistence sector - ***profits.***

DEVELOPMENT PROCESS AND CHOICE OF DEVELOPMENT STRATEGY:

11. (a) **Distinguish between 1000 pound technology and 1 pound technology.**

1000 pound technology is a **method of production** which employs relatively **more units of capital** than other factors of production especially labour.

While;

1 pound technology is a **method of production** which employs relatively **more units of labour** than other factors of production especially capital.

(b) **"Developing countries should adopt the capital intensive techniques of production if they are to achieve their development goals". Discuss**

Arguments for adopting K.I.T /labour- saving technology/1000 pound technology.

- It leads to production of high quality output – ***machines are efficient.***
- It saves time and it is less tiresome – ***machines work faster.***
- It increases output – ***machines work at high speed –more output produced.***
- It improves the skills of workers – ***workers train to use machines.***
- It minimizes the wage bill paid to labour in the long run - ***since it employs few workers.***
- It promotes labour efficiency –***machines accomplish tasks faster.***
- It facilitates exploitation of resources – ***machines are fast – put to use local resources.***
- It facilitates the development of infrastructure - ***machines used construct roads.***
- It creates employment opportunities in the long run.
- It reduces labour strikes.
- Standardization of output is possible.
- It leads to technological development / transfer.

Arguments against adopting K.I.T / labour- saving technology / 1000 pound technology.

- It leads to technological unemployment –***use of machines replaces human labour- loss of jobs.***
- It causes social costs / pollution– ***machines release poisonous gases into atmosphere.***
- It leads to resource exhaustion- ***machines work at a high speed –resources are irrationally exploited/utilized.***
- Leads to over production -***because a lot of output is produced yet market is small hence wastage of resources.***
- It is expensive to undertake – ***because K.I.T requires a lot of funds to purchase machines.***
- It worsens income inequality –***the few employed people with machines produce high output and earn high incomes compared to those using primitive methods.***
- Leads to profit repatriation-.
- It requires complex skills which may not be readily available.
- Machines are not applicable in certain activities where human judgment is required.

12. (a) **Differentiate between the inward looking and outward looking strategies of industrialization.**

Inward looking industrial strategy refers to **the strategy** of establishing industries internally to produce the **formerly imported industrial goods**.

While

Outward looking industrial development strategy is the **strategy** of promoting domestic manufacturing sector with **aim of increasing goods for export**.

(b) Explain the arguments for and against the adoption of the inward looking industrial development strategy in Uganda.

Arguments for /benefits of adopting inward looking industrial development strategy.

- Improves BOP position / saves scarce foreign exchange ***-domestic production is increased which reduces the need to import-reduces import expenditure.***
- Promotes development of entrepreneurship skills- ***people invest in setting up industries to make profits.***
- Generates government revenue - ***government imposes taxes on output produced.***
- Creates more employment opportunities - ***people are hired to work in industries.***
- Encourages exploitation of local resources - ***Industries set up increase demand for raw materials.***
- Promotes economic growth ***–industries setup increase production.***
- Promotes the development of infrastructure ***-roads setup by gov't to reduce c.o.p.***
- Improves labour skills – ***training labour to acquire skills needed in industries.***
- Promotes technological transfer/development – ***through research to improve quality of output.***
- Promotes growth of industrial sector ***–setting up industries to produce locally previously imported goods.***
- Controls imported inflation.
- Promotes self-reliance/sufficiency.
- Encourages capital inflow.

Arguments against/Disadvantages of import substitution industrial dev't strategy.

- There is rural urban migration and its associated problems – ***most industries are urban based- attract people to look for employment in urban areas.***
- Increases social costs e.g. pollution – ***industries release poisonous gases into atmosphere.***
- Poor quality goods are produced- ***because domestic industries are protected from external competition -and use of poor technology.***
- Firms operate at excess capacity – ***due to limited market, poor technology, etc.***
- There is increased government expenditure ***–gov't spends a lot of money to subsidize local firms.***
- Causes technological unemployment –***due to use of machines-replace human labour - loss of jobs.***
- Results into low government revenue- ***because of tax concessions given to such industries.***
- It worsens balance of payment problem– ***importation of expensive intermediate raw materials.***
- There is production of limited variety of goods- ***due to restriction of substitute imports.***
- High prices of final products - ***due to high cop and use of expensive imported inputs.***
- There is consumer exploitation – ***selling underweight goods to consumers, product adulteration and charging high prices.***

- Accelerates capital outflow.
- There is concentration on production of consumer goods at the expense of capital goods.

DEVELOPMENT OF AGRICULTURE AND INDUSTRY:

13. (a) **Explain the role of agriculture in the development of an economy.**

Positive role of agriculture

- Generates revenue to government -***gov't taxes agric. products.***
- Creates employment opportunities - ***because sector is labour intensive.***
- Generates foreign exchange -***exporting agric. products.***
- Promotes development of infrastructure - ***gov't is forced to setup roads.***
- Source of food to the people -***most people grow food crops for both rural and urban popn.***
- Promotes GDP/ increases economic growth -***through prodn of more agric products.***
- Reduces income inequality- ***agric is mainly labour intensive-many people earn income.***
- It promotes industrial dev't - ***b'se agric provides raw materials to agro based industries.***
- promotes utilisation of resources.
- Promotes balanced regional development.
- Provides market to the industrial sector.

Negative role of agriculture

- Causes seasonal unemployment -***b'se farmers depend on nature - remain unemployed during dry season.***
- Leads to production of poor quality output -***due to use of poor technology.***
- Worsens BOP problem - ***due to narrow range of products for export hence low foreign exchange.***
- Leads poor terms of trade - ***b'se prices of agric products are low.***
- Generates low government revenue - ***b'se earnings from agric are low -narrows tax base.***
- Limits development of labour skills -***due to use of L.I.T limits skill acquisition.***
- Retards technological development - ***due to use of L.I.T -limits research in agric.***
- Low output hence low economic growth.
- Worsens economic dependence.
- Leads to rural urban migration and its evils.
- Leads to high level of structural inflation.

(b) **What measures have been taken to improve the agricultural sector in an economy?**

- Provided investment incentives to farmers-***reduced c.o.p-increased profits of investors.***
- Adopted land reforms - ***access to land by farmers to increase prodn.***
- Provided affordable capital to farmers -***availed funds to farmers to purchase farm inputs.***
- Improved technology - ***increased efficiency hence improved quality of agric produce.***
- Improved infrastructure - ***enabled farmers to transport agric produce to markets due to reduced c.o.p-increased profits of investors.***
- Improved labour skills - ***increased efficiency hence improved quality of agric produce.***
- Maintained political stability - ***encouraged people to invest in agric due to safety of their life and property.***
- Widened market - ***increased sales and profits of farmers hence expanded agric prodn.***
- Controlled inflation.

- Encouraged industrialization.
- Improved entrepreneurial skills.
- Provided extension services to farmers.
- Promoted agricultural diversification.
- Carried out research.
- Provided subsidized inputs to farmers.

14. (a) Why is there need to modernize agriculture in Uganda?

N.B: Agricultural modernization is the **changing of agricultural sector** from **subsistence production** to **commercialized** high yielding **production**.

Reasons for modernization of agriculture

- To reduce seasonal unemployment - ***introduction of irrigation farming -reduces dependence on nature***.
- To increase output - ***through irrigation that increases volume of agricultural products.***
- To improve balance of payment position - ***through agriculture diversification that increases output for export.***
- To reduce income inequality - ***through encouraging commercial production that increases farmers' income.***
- To develop labour skills –***through training of labour due to use of machines***.
- To increase incomes of farmers - ***through encouraging commercial production that increases output for sale.***
- To improve quality of products - ***through use of modern machines and storage facilities.***
- To generate revenue to the government - ***through encouraging large scale production that increases output that is taxed.***
- To promote growth of industrial sector - ***through encouraging large scale production that increases supply of raw materials to agro based industries***.
- To facilitate exploitation of resources - ***through encouraging production where more land is put to use***
- To widen consumer choices - ***through production of variety of agricultural products***.
- To promote food security.
- To improve terms of trade.
- To promote development of infrastructure.
- To attain price stability / to control structural inflation.
- To promote technological development.

(b) Explain the constraints to agricultural modernization in Uganda.

- Limited capital – ***limits ability to purchase machines to expand agric.***
- Limited skilled labour – ***limits efficiency of farmers to use machines hence low output.***
- Poor technology – ***limits efficiency in production hence poor quality agricultural produce.***
- Limited market – ***limits large scale farming- fear to make losses.***
- Conservatism of farmers – ***makes it difficult to adopt new methods of farming.***
- Poor infrastructure – ***limits transportation of agric products to markets.***
- Unfavourable topography – ***hilly areas discourage use of machines in agriculture.***
- Poor land tenure system – ***limits accessibility to land to undertake large scale production.***

- Low levels of accountability / corruption –*some gov't officials misuse money meant to finance and expand agric for personal gains.*
- Political instability –*limits investmnt in agric b'se farmers fear to lose life and property.*
- Low levels of entrepreneurial skills.
- Unfavourable natural factors
- Low and fluctuating prices of agricultural products.

UNEMPLOYMENT AND EMPLOYMENT:

15. (a) **What are the benefits of employment in Uganda?**

N.B: Employment is **activity** or occupation by which a **person earns a living** in a given period of **time.**

- Increases government revenue/widens tax base.
- Increases aggregate demand.
- Promotes economic growth.
- Reduces income inequality.
- Reduces dependence burden.
- Promotes labour skills.
- Reduces crime rates.
- Reduces rural urban migration and its evils.
- Promotes family stability.
- Reduces brain drain.
- Promotes resource utilization.
- Encourages investment in education.
- Reduces political tension.
- Reduces government expenditure.

(b) **Suggest measures of reducing youth unemployment in Uganda.**

- Adopt land reforms– *accessibility to land by investors – increase investment – jobs created.*
- Improve Infrastructure – *cost of production - profits– increase investment – jobs created.*
- Maintain Political stability – *safety for life and property– increase investment – jobs created.*
- Widened market –*sales and profits of investors - invest– increase investment – jobs created.*
- Adopted education reforms –*produce people with practical skills – start up jobs.*
- Modernize agriculture – **irrigation farming** - **reduce** *dependence on nature – reduce seasonal unemployment.*
- Provided affordable capital to investors - *startup income generating activities – jobs created.*
- Advertise existing jobs - **create awareness – able to apply for jobs.**
- Control population growth rate - *Reduce dependence burden and increase savings for investment –jobs created.*
- Provide investment incentives - *reduce cost of production – profits increase - promote investment - jobs created.*
- Liberalize the economy.

- Support disadvantaged groups of people
- Export surplus labour.
- Diversify the economy.
- Adopt use of appropriate technology.
- Privatize public assets/enterprises.

16. (a) Account for the involuntary unemployment problem in developing countries.

- Rural-urban migration - ***creates many job seekers in urban areas than available jobs.***
- Ignorance of people about available jobs - ***people are not aware about existing jobs.***
- Technological progress/ Advancement - ***increased use of machines replace human labour.***
- Physical and mental disabilities - ***such people are denied jobs because they are considered inefficient.***
- Discrimination in the labour market based on age, sex and religion, etc. - ***some people are denied jobs b'se of tribe, religion etc –blocked from accessing employment.***
- High population growth rate - ***increases dependence burden –limits savings for investments – few jobs created (labour supply exceeds available jobs).***
- Poor education system - ***releases people without practical skills- cannot create for themselves jobs.***
- Poor land tenure system - ***limits accessibility to land – limits investment – limits job creation.***
- Limited market / fall in demand for goods – ***reduces sales and profits – limits investment – limits job creation.***
- Limited capital - ***Limits acquisition of factor inputs – limits investment -limits job creation.***
- Political instability in some areas - ***limits investment due to fear of losing life and property -limits job creation.***
- Poor infrastructure - ***increases cost of production –low profits – limits investment - limits job creation.***
- Retrenchment of workers (in order to reduce costs)
- Unfavourable climatic changes.
- Limited entrepreneurial skills.

(b) Why is unemployment persistently becoming a problem of concern today?

- It increases the dependence burden - ***the unemployed rely on the employed people for survival –low savings –low investment.***
- Encourages rural-urban migration and its evils -***the unemployed move to urban areas looking for jobs.***
- It increases crime rates /promotes social evils e.g. prostitution - ***the unemployed engage in criminal acts to earn a living.***
- It leads to low government revenue/narrows tax base - ***the unemployed do not earn income –do not pay taxes.***
- It results into low production / low Gross Domestic Product / low economic growth - ***the unemployed do not participate in production.***
- It worsens income inequality - ***the unemployed do not earn income thus become poorer than the employed.***

rebellions, strikes to express their dissatisfaction.

- It increases government expenditure - ***government spends a lot of money on employment creation campaigns.***
- It discourages investment in education - ***people lose interest in education as many educated persons have no jobs.***
- It leads to low aggregate demand for goods and services - ***the unemployed have a low purchasing power.***
- It leads to a decline in the level of acquired skills - ***the unemployed do not practice what they learnt during training.***
- It results into family instability - ***the unemployed fail to provide basic needs for their families hence conflicts.***
- Promotes underutilization of resources
- It leads to misery and low levels of living.

INFLATION:

17. (a) **Why does inflation exist in an economy?**

- Excessive issuance of currency - ***increases money supply – increases agg dd - prices increase –inflation.***
- Unfavourable natural factors (Natural hazards) - ***destroy crops and animals thus creating shortage of food items on the market - prices increase –inflation.***
- Speculation by businessmen/traders - ***traders hoard goods thus creating a shortage of goods on the market -prices increase –inflation.***
- Greed (desire) for excessive profits by traders/producers - ***traders increase prices of goods in order to increase profit levels.***
- Importation of goods from countries experiencing inflation - ***importers increase prices of goods to cover the high costs of importation.***
- Break-down of infrastructure - ***limits distribution of goods thus creating shortage of goods in some areas -prices increase –inflation.***
- Political instability in some areas - ***limits production in some areas – shortage- prices increase –inflation.***
- Rising costs of production - ***producers increase prices of goods to cover the increased costs of production.***
- Excessive government expenditure - ***increases money supply– increases agg dd - Prices increase –inflation.***
- Depreciation of the local currency- ***makes importation of goods expensive which forces importers to increase their prices.***
- Excessive inflow of incomes from abroad - ***increases money supply – increases agg dd - prices increase –inflation.***
- Excessive exportation of essential goods - ***causes shortages of goods in the domestic market - prices increase –inflation.***
- Excessive or uncontrolled credit creation by commercial banks - ***increases money supply– increases agg dd -prices increase –inflation.***
- Excessive borrowing by government from the Central bank - ***increases money supply – increases agg dd -prices increase –inflation.***

(b) What policy measures can be adopted to control inflation?

- Increase direct taxes - ***reduce disposable income and purchasing power – reduce agg dd.***
- Reduce government expenditure on provision of non-productive activities ***-reduce money in circulation – reduce agg dd- force prices to fall.***
- Provide investment incentives to investors - **reduce** ***cost of production and increase production of goods – force prices to fall.***
- Improve infrastructure – ***ease distribution of goods – reduce shortages– force prices to fall.***
- Adopt restrictive monetary policy ***-reduce money supply – reduce agg dd– force prices to fall.***
- Control issuance of currency - ***reduce money in circulation – reduce agg dd– force prices to fall.***
- Modernize agriculture – ***increase production –stabilized supply of goods– force prices to fall.***
- Privatize Public enterprises – increase ***efficiency in production –increase supply of goods– force prices to fall.***
- Import from cheaper sources – **reduce importation of expensive goods -control** ***imported inflation.***
- Improve political climate - ***promote production due safety for life and property– force prices to fall.***
- Reduce gov't borrowing from the central bank - ***reduce money in circulation – reduce agg dd– force prices to fall.***
- Control export of certain essential goods - ***increase supply of essential goods on the domestic market – force prices to fall.***
- Establish import substitution industries - ***increase domestic production – to reduce imported inflation.***
- Liberalize the economy.

18. (a) Differentiate between hyper- inflation and mild inflation

Creeping /mild /gradual inflation. This is (one) where persistent increase in the general price level increases at a **slow rate**, usually not exceeding 10% per annum (year).

While;

Galloping /run away /hyper -inflation. This is (one) where persistent increase in general price level increases at a **very high rate**, exceeding 10% per annum.

(b) Explain the effects of inflation in Uganda.

Positive effects of inflation in Uganda include:

- It promotes effort and hard work – ***p'ple are forced to work hard to meet the rising cost of living.***
- More employment opportunities are created ***-due to increased profits and investment –jobs created.***
- It increases government revenue – ***impose taxes on profits of firms.***
- It encourages resource exploitation ***–due to high profits- increased investment – resources put to use.***
- It encourages innovations and inventions- ***due to increasing cost of living – p'ple become risk takers to earn more.***

- Borrowers/debtors gain in real terms –*use borrowed money profitably but pay back less in real terms.*
- It promotes monetization of the economy –*b'se of high profits, investors produce for sales.*
- Promotes investment – *b'se of high profits, investment is promoted.*
- It increases output -*due to increased profits – investment is promoted –increased prodn.*
- It encourages labour mobility – *due to increasing cost of living – labour is forced to look for high paying jobs.*
- It increases labour supply - *due to increasing cost of living – workers are forced to supply more hours of work*
- Promotes industrialization –*increasing prices motivate investors to increase local prodn to stabilize prices.*

Negatives:

- It discourages savings -*due to rapid loss in money value - savings discouraged.*
- There is loss of confidence in the local currency - *due to rapid loss in money value-money doesn't serve its function as a store of value.*
- Fixed income earners suffer –*due to increasing cost of living, they are left with little for consumption.*
- Lenders (creditors) stand to lose -*due to rapid loss in money value –lenders are paid back their money with low purchasing power.*
- There is unemployment – *due to high cost of prodn and fall in profits - some firms close down.*
- It makes planning difficult –*due to increased cost of living, funds set aside for planning becomes inadequate.*
- It discourages investment – due *to high cost of prodn and fall in profits – investment is discouraged.*
- It worsens income inequalities - *due to increased cost of living, consumers spend more yet traders maker more profits.*
- It encourages illegal activities such as corruption - *due to high cost of living, p'ple get involved in illegal activities to get money.*
- It strains workers -*in order to cope with the rising cost of living, p'ple work for long hours to earn more.*
- Government becomes unpopular - *due to increasing cost of living, the public blames gov't for failure to control inflation.*
- It leads to industrial strikes - *due to high cost of living, workers demand for high wages through strikes.*
- It leads to production of poor quality goods –*b'se producers use cheaper but substandard inputs to lower prodn costs.*
- It results into brain drain – *b'se of increasing cost of living, skilled labour is forced to look for jobs in other countries.*
- Results into collapse of some firms – *due to increasing cost of prodn and fall in profits – firms close.*
- Results into capital outflow – *due to increasing cost of prodn, foreign investors take back their capital to other countries.*
- Promotes rural urban migration and its evils - *due to increased cost of living, p'ple move to urban areas for higher incomes.*

19. (a) Distinguish between banking financial institutions and non-banking financial institutions.

Banking financial institutions are **financial institutions** that accept deposits, give out loans and create credit.

While

Non-banking financial institutions are **financial institutions** that accept deposits, give out loans and do not credit.

(b) Explain the functions of banking financial intermediaries in Uganda.

- Accepting deposits- ***allowing customers to open various bank accounts.***
- Advancing loans to customers -***by offering different loans to trustworthy customers.***
- Providing easy means of payment -***transfer money from debtors to creditors by use of cheques.***
- Acting as custodians of customers' valuables –***they provide strong rooms to keep valuable items e.g. land titles.***
- Providing advice to the investors –***they advise customers on profitable investment opportunities.***
- Exchanging of currencies of different countries – ***they buy and sell local and foreign currencies.***
- Acting as trustees and executors of property and will of their deceased customers - ***manage property of deceased clients and distribute it to the deceased's family.***
- Issuing letters of credit and act as referees to their clients –**they recommend their clients who wish to buy goods on credit.**
- Underwriting shares and debentures of companies- ***they trade in issued securities as primary dealers who sell them to other interested clients.***

(c) Explain the factors that influence the level of credit creation.

- Interest rate on loans –***cost of borrowing from banks –increases/reduces demand for loans.***
- Level of investment opportunities - ***increases/reduces demand for loans from banks.***
- Level of liquidity preference-***increase/reduces deposits- increase/reduces loanable funds in banks.***
- Political climate- ***increases/reduces demand for loans from banks –without/for fear of making losses.***
- Rate of inflation–***cost of borrowing from banks –increases/reduces demand for loans.***
- Size of bank deposits- ***increase/reduces loanable funds in banks.***
- Nature of distribution of Commercial Banks.
- Size of the cash ratio - ***increase/reduces loanable funds in banks.***
- Availability of credit worthy borrowers – ***increases / reduces lending capacity of banks – without / for fear of making losses.***

- Availability of collateral security – ***increases / reduces lending capacity of banks – without / for fear of making losses.***
- Knowledge about services provided by commercial banks – **increases / reduces demand for loans since many / few apply for loans.**
- Level of monetization of the economy (Size of the subsistence sector)
- Level of accountability (by bank officials)
- Government monetary policy (The Central bank's monetary policy).
- Degree of uncertainty

(a) Explain the Irving fishers' quantity theory of money.

The Quantity theory of money states that the general price level is determined by the quantity of money in circulation assuming that the velocity of circulation of money (V) and the level of transactions (T) are constant.

The theory is represented by the Fisher's equation of exchange

$MV = PT$

M	=	Amount of money in circulation.
V	=	Velocity of circulation of money
Where P	=	General price level
T	=	Level of transactions

According to the theory, an increase in money supply leads to an increase in general price level and a decrease in money supply leads to a decrease in the general price level assuming the level of transactions and velocity are constant.

(b) Examine the relevance of the quantity theory of money.

The weaknesses /limitations/criticisms/irrelevancies of the theory include;

- It only attempts to explain changes in the value of money, but does not show how the value of money is determined.
- It assumes that the demand for money is only for transaction motive, ignoring other motives like precautionary and speculative motives.
- It does not take into account other factors that bring about a change in the general price level other than money supply. E.g. cost-push inflation.
- Velocity of circulation of money (V) and the level of transactions (T) are never constant yet the two variables can change depending to season and level of income.
- There is no general price level but rather a series of price levels.
- It ignores the influence of interest rate on the general price level and money supply yet the high interest rate discourages borrowing which leads to low money supply.
- Developing countries are having many unemployed resources which when exploited can lead to an increase in output hence prices fall or do not change at all.
- Bargaining/haggling between buyers and sellers to reach agreeable price is not taken into account.
- It ignores government interference in price determination i.e. minimum and maximum price.
- It is just an expression/truism. It merely shows the relationship between four variables M, V, P, T but not a true theory.

- The four variables M, V, P and T are not independent of one another because a change in one causes a change in the others.
- It ignores existence of barter trade system of exchange.
- It ignores the demand for money and only looks at money supply in an economy thus making it a one sided theory
- It ignores the high marginal propensity to save because as money supply increases, people may save much of it which may keep the general price at the same level.

Relevance of the theory.

- In most cases, people demand for money for transaction purposes
- People mostly use money as a medium of exchange instead of barter trade.
- To some extent, excessive money supply without a corresponding increase in output cause inflation.
- Government control on prices is rarely used in highly liberalized economies.

<u>FOREIGN AID:</u>

21. (a) What are the motives of giving foreign aid by donors?

- For humanitarian reasons/to assist victims of natural disasters.
- To economically dominate the recipient county by dictating economic policies.
- To extend political influence by attaching political strings on the aid.
- To extend social and cultural ideologies to the recipient countries.
- To create employment opportunities for their nationals.
- To extend military influence through military aid.
- To acquire grounds for research.
- To create market for their products.
- To exploit local resources of the recipient countries.

(b) Assess the role of foreign aid in the economic development of developing countries.
Positive roles:

- **It** closes / fills the savings – investment gap – ***funds acquired used to set up firms.***
- **It** closes / closes the government revenue – ***expenditure gap – funds acquired used by gov't to meet its expenditure needs.***
- **It** closes the foreign exchange gap – ***aid in form of foreign currency increases its supply hence increased ability to import.***
- **It** closes or fills the skilled man-power gap –***skilled labour is brought into the country as expatriates.***
- **It** closes/fills the technological gap – ***modern technology is brought into the country.***
- **It** reduces the effects of catastrophes / calamities –***relief aid e.g. food is used to help victims of disasters.***
- **It** facilitates the development of infrastructure –***modern tech. acquired used to set up roads.***
- It creates employment opportunities – ***funds acquired are invested hence more jobs created.***
- It accelerates industrial growth – ***aid inform of capital used to set up industries.***
- It encourages exploitation of resources –***modern technology acquired is used to put to use local resources e.g. land.***

- It improves local skills through training –*aid inform of scholarships provide skills to local labour.*
- It strengthens international relations (between the donors and the recipient country).
- It promotes political stability.
- It promotes economic growth -.

Negative Roles

- Worsens balance of payments problem -*due to repayment obligations and buying expensive goods to donors.*
- Causes (technological) unemployment -*due to automation hence loss of jobs.*
- Results into economic domination of the economy by foreigners – *donors dictate economic policies to be followed by recipient countries.*
- Results into political domination of the economy by foreigners -*donors dictate political policies to be followed by recipient countries.*
- Results into brain drain - *due to aid given in form of scholarships – some nationals who train abroad don't come back.*
- Results into cultural erosion - *due to importation of western culture- nationals discard their own traditional values.*
- Distorts economic planning –*b'se aid given is inadequate, uncertain and tied –limits completion of projects to be financed using such funds.*
- Kills local initiatives / promotes laziness –*b'se the recipient country constantly expect free things from donors.*
- Limits capital formation - *b'se a lot of funds are used to clear debts- little left for savings and investment.*
- Leads to underutilization of resources –*b'se efforts are not done to exploit local resources- they expect.*
- Denies nationals of essential commodities due to high debt servicing that calls for increased taxation.
- Subjects the economy to inappropriate and undesirable decisions.

PUBLIC FINANCE AND FISCAL POLICY:

22. (a) **Differentiate between tax administration and tax compliance.**

Tax administration is a mechanism of assessment, collection, enforcement and accounting for the tax imposed.

While

Tax compliance is the degree to which the tax payer conforms to the tax rules of the country and paying the tax due in a timely manner.

(b) **What are the benefits of tax compliance in an economy?**

- It increases government revenue –*b'se people pay taxes willingly – hence better service delivery.*
- It reduces the cost of tax administration – *b'se tax collection is easy and less costly.*
- It promotes continuity in business activities – *due to limited gov't interference from tax authorities*
- It eases facilitation of the business –*tax payers who are compliant participate in bidding for contracts from gov't ministries, apply for a loan, etc.*

(c) **Suggest measures of increasing tax compliance in developing countries.**

- Simplify tax laws –*to enable tax payers understand them hence comply.*
- Carryout tax education – ***sensitize public about the importance of paying taxes hence comply.***
- Strengthen tax administration –***can enable proper identification of tax sources and assessment.***
- Carryout regular audits – ***can help tax payers keep proper records from time to time he comply.***
- Provide tax incentives - ***eg. on importation of raw materials to promote production and increase tax compliance.***
- Adopt strict enforcement measures e.g. heavy fines on tax offenders – ***to reduce revenue leakages hence comply.***
- Reward and recognize best tax payers on tax payer appreciation days ***to motivate others comply.***
- Grant amnesty to non -responsive tax payers – ***to pardon tax payers to enable them comp through voluntary declaration schemes.***
- Adopt whistle blower's policy i.e. ***where the public is encouraged to provide information to tax authorities regarding non tax compliance.***
- Adopt a more equitable tax system among tax payers so that the ***tax burden is equitably distributed among tax payers.***
- Adopt border controls like joint verification between countries, patrols, surveillance
- Adopt advanced technology e.g. electronic cargo tracking system.
- Adopt automation of tax collection and assessment processes e.g. E - tax
- Ensure consistence in implementation of tax laws.
- Encourage self-tax assessment.
- License clearing and tax agents.
- Improve accountability.
- Adopt installment scheme by signing memorandum of understanding between tax authorities and tax payers with large outstanding liabilities.
- Improve quality of business management in terms of record keeping.

23. (a) **Explain the attributes of a good tax system.**

- It should be certain - *tax payer should know the amount to pay, the time of payment and where to pay.*
- It should be convenient - *tax should be collected when the tax payer has the ability to pay.*
- It should be cheap/economical/efficient - *the cost of tax collection should be low.*
- It should be comprehensive - *tax imposed should cover a wide source base.*
- It should be productive - ***should realize enough revenue -therefore shouldn't discourage investment.***
- It should be impartial/neutral -*should not discriminate among tax payers.*
- It should be equitable/fair - ***high income earners should pay more taxes than the low income earners***
- It should be consistent - ***should be in line with development objectives of the country.***
- It should be elastic/flexible - *tax imposed should change with changes in tax payers' income.*

- It should be simple - ***tax imposed should be easy to understand and calculate by taxpayer.***

(b) Explain the role of taxation in Uganda.

- It controls inflation - ***through increasing direct taxes to reduce disposable income – reduce agg dd.***
- It promotes economic growth - ***through reducing taxes to reduce c.o.p- investment.***
- It reduces income inequality –***through progressive taxation.***
- It improves the balance of payment position - ***through imposing high taxes on imports.***
- It protects domestic/infant industries/firms from foreign competition - ***Thru imposing high taxes on imports to reduce their inflow.***
- It consumption of undesirable /demerit /harmful commodities -***thru imposing taxes on such goods – make less affordable.***
- It controls dumping - ***thru imposing high taxes on such goods to discourage their importation.***
- It generates revenue for government - ***thru imposing direct taxes and indirect taxes.***
- It influences investment/influences resource allocation.
- It controls monopoly power - ***thru imposing high taxes on abnormal profits.***

INTERNATIONAL TRADE:

24.(a) Account for the poor terms of trade in developing countries.

- Falling prices of exports – ***due to poor quality – bought at low prices.***
- Importation of expensive manufactured (capital and consumer) goods – ***due to high value addition on imports yet exports are cheap.***
- Exportation of semi-processed agricultural and mineral products –***due to low value added – low export prices.***
- Increased substitution of exports with synthetic products by the developed countries – ***reduce demand for natural products – low prices.***
- Poor quality exports – ***limits demand for exports – low prices.***
- Adoption of raw material saving technology in export markets by developed countries – ***reduce demand for agric products –low prices.***
- Protectionist policies of developed countries – ***limits market for export – low prices.***
- Weak bargaining power of developing countries on the world market – ***prices of exports are determined by buyers who set low prices.***
- Market flooding of export markets – ***countries export excess goods to the same market – fall in prices.***
- Low income elasticity of demand for exports.

(b) Suggest measures that should be taken to improve terms of trade in developing countries.

- Import substitution industries should be established.
- Strengthen commodity agreements.
- Negotiate for removal of trade barriers in export markets.
- Diversify exports.
- Diversify export markets.
- Manufacture products for export.
- Primary products for export should be processed (to add value).
- Quality of exports should be improved.

- Importation from cheaper sources should be encouraged.
- Stabilize exchange rates.
- Campaign for use of natural products should be encouraged.

25. (a) **Explain the different forms of protectionism in Uganda.**
- **Manipulation of exchange rates.** The central bank allows the local currency to lose val and this makes exports cheap **and imports become expensive which reduces demand imports**
- **Administrative controls.** This involves government creating **complicated procedures** which importers have go through **before they are cleared.**
- **Total ban/trade embargo.** this involves government **prohibiting importation** of certain commodity
- **Import licensing.** This involves government issuing **limited number of licences** to limit the number of importers to reduce volume of imports.
- **Quotas.** Government sets **the maximum quantity of a particular product** to be import and should not be exceeded to reduce volume of imports.
- **Quality control measures.** Government sets **high quality standards** which imported goods must **meet before they are allowed** in the country
- **Subsidization of domestic industries.** This lowers the operational costs of local firms to enable them sell goods at lower prices to outcompete imports which are expensive.
- **Tariffs.** Government **increases taxes on imports to make them expensive** which reduce their demand in the domestic market.

(b) **Explain the implications of trade protectionism in Uganda.**

Positive.
- Protects infant industries *(use of high import duties)*
- Discourages importation of harmful goods.*(use of high import duties)*
- Improves B.O.P position *(high taxation on imports reduce expenditure on imports)*
- Discourages dumping *(use of high tariffs on dumped goods)*
- Controls imported inflation *(government imposes a ban on importation of goods fr countries experiencing inflation)*
- Increases revenue to government *(tariffs on imports and import licenses)*
- Creates employment opportunities at home *(restrictions on imports encourage investors expand and create jobs in the new industries.)*
- Encourages use of local resources/encourages resource utilization *(high tariffs on import raw materials makes them expensive forcing local producers to use local resources)*
- Improves terms of trade – *ban importation of expensive goods.*
- Reduces dependence on imports /promotes self-reliance
- Promotes economic growth.

Negative impacts/Arguments against/Problems that arise out of restricting imports
- It encourages inefficiency in protected industries – *absence of competition.*
- Increases government expenditure -*on subsidization of domestic firms.*
- It forces nationals of the country to consume poor quality products – *reduced competiti from imports.*
- Discourages private investments -*due to bureaucratic delays involved in getting licenses.*

- Limited variety of goods in the domestic market -*due to total ban.*
- Protected firms tend to remain infant - *due to lack of competition.*
- Loss of revenue from import duties -*due to use of total ban and quotas.*
- Encourages trade mal-practices e.g. Smuggling -*due to banning and high import duties.*
- Encourages retaliation from trading partners thus limiting gains from trade.
- It gives rise to growth and development of monopoly and its evils.
- It subjects nationals of the country to consumption of highly priced goods.
- Discourages specialization because it emphasizes need for self-reliance.

POPULATION AND LABOUR:

(a) Distinguish between natural population growth rate and artificial population growth rate

Natural PGR is the rate of change of population size due to changes in birth rates and death rates over a given period of time.

While

Artificial PGR is the rate of change of population size due to changes /interplay of immigration and emigration.

(b) Discuss the effects of an increasing population in an economy.

Positive effects of increasing population.

- It provides a large market size - *increases the number of consumers.*
- It provides a high labour supply - *produces many people who engage in productive activities.*
- It increases revenue to government - *increases the number of people who are taxed.*
- It promotes resource exploitation - *more resources are put to use to needs of growing population.*
- It promotes innovations and inventions - *provides young people who are very creative and innovative.*
- It promotes investment - *increases number of consumers thus attracts entrepreneurs to invest.*
- It awakens the government to its responsibility of providing the necessary infrastructure.
- Encourages labour mobility.
- Initiates effort to work harder to sustain the predominantly dependent population.
- Reduces the cost of providing social services.

Negative effects of increasing population.

- It results into resource exhaustion - *resources are overexploited to increase prodn to support the increasing ppn.*
- There is high dependence burden - *bse it increases number of young dependants.*
- Results into unemployment - *bse increases labour supply than available jobs.*
- Worsens Balance of Payment problems - *due to high import expenditure to increase domestic supply.*
- Worsens rural urban migration and its evils. **due to rapid population increase in rural areas**
- Results into brain drain - *due ppn increase, highly skilled labour is forced to move to other countries.*

- Effective planning for the population becomes difficult.
- There is high government expenditure on provision of social services.
- Results into high social costs in form of pollution.
- Available infrastructure is over strained.
- Leads to high government expenditure on provision of social services e.g. schools.
- Leads to low labour productivity.
- Leads to land conflicts /exerts pressure on land.
- Leads to low effective demand.

27. (a) Explain the methods used to determine wages in Uganda.

- Piece rate system
- Time rate system
- Market forces of demand and supply of labour
- Employer setting the wage
- Individual bargaining
- Collective bargaining
- Government policy of wage.

(b) Examine the factors that influence the level of wages in Uganda.

- Level of education and training - **efficient/ inefficient**
- Nature of jobs - ***compensated/not compensated for risking their lives.***
- Individual bargaining power / strength - convince/ ***not able to convince their employe***
- Strength of trade unions - ***able to negotiate/not able to negotiate for higher wages.***
- Level of talents and natural gifts - ***efficient/inefficient.***
- Number of hours worked (especially in case of time rate system) -***compensated/not compensated for their leisure foregone***
- Amount of output (especially in case of piece rate system)- **efficient/inefficient**
- Employer's ability and willingness to pay - ***employers are able/not able to increase to wages.***
- Level of discrimination in the labour market based on age, gender etc- **favored/not fa by employers.**
- Level of experience/ expertise/ responsibility- **efficient/not efficient**
- Elasticity of supply of labour.
- Level of demand and supply of labour.
- Government policy on wages.

(c) Account for the differences in wages and salary structures in Uganda.

- Differences in nature of jobs.
- Variations in level of skills/education and training.
- Differences in bargaining power strength of individual workers.
- Differences in trade union's ability to bargain for wages/strength of trade unions.
- Differences in cost of living.
- Differences in employer's ability and willingness to pay workers.
- Differences in number of hours worked- ***(the case of time rate system).***
- Differences in quantity of output produced (the case of piece rate system)
- Differences in elasticity of supply of labour.

- Discrimination in the labour market on the basis of gender, age, religion and race.
- Differences in experience/expertise/responsibility/seniority.
- Differences in elasticity of demand for a product that labour produces.
- Differences in talents or natural gifts.
- Government/employers' policy on wages which tends to be non-matching.

STRUCTURE OF UGANDA'S ECONOMY:

.(a) How has private sector contributed to the development of Uganda's economy?

- Provided revenue to government - ***(through taxation).***
- Improved quality of goods and services- ***(due to competition)***
- Provided employment opportunities- ***(through hiring of labour).***
- Widened consumer choices- ***(due to production of a variety of goods and services)***.
- Promoted exploitation/utilization of resources - ***through increased use of resources).***
- Promoted development of labour skills (increases skills of labour) - ***through training***
- Facilitated development of infrastructure –***through construction of roads.***
- Promoted efficiency- ***due to competition.***
- Improved Balance of Payment position -***through production for export***
- Promoted economic growth/GDP.
- Promoted technological development (Promotes innovations and inventions).
- Promoted commercialization of the economy.
- Promoted industrialization.
- Promoted development of entrepreneurial skills.
- Diversified the economy/reduces dependence

(b) Suggest measures that should be taken to improve performance of the private sector in Uganda.

- Infrastructure should be improved.
- Political stability should be maintained.
- Markets should be widened /expanded.
- Land reforms should be adopted.
- Inflation should be controlled
- Investment incentives should be provided to investors.
- Further liberalization of the **economy** should be under taken.
- Further privatization of the **government enterprises** should be carried out.
- Intensify publicity of investment opportunities available in Uganda.
- Savings should be encouraged.
- Entrepreneurial skills should be improved
- Accountability should be improved.
- Technology should be improved.

29. (a) Distinguish between nationalization and privatization.

Is the **transfer of ownership** of a state /public/**government enterprises** to the **private investors.**

While

Nationalization is the **deliberate government action** of taking over **ownership and control** of enterprises **from private investors** with or without compensation.

Positives:

- Enables firms operate more efficiently.
- Reduces corruption tendencies which are rampant in state enterprises.
- Attracts foreign investment.
- Reduces government expenditure on subsidisation of public enterprises.
- Meets international monetary fund conditionality of creating a private sector led econom
- Encourages competition in production hence quality output.
- Creates more employment opportunities in the (long-run).
- Increases government revenue/tax base through sale of public enterprises.
- Increases/improves on the level of resource utilization/exploitation.
- Reduces bureaucratic tendencies.
- Encourages creativity /innovativeness among producers in the private sector.
- Allows government concentrate on provision of social services.
- Improves on balance of payment position (by reducing imports and increasing exports).
- Controls (structural) inflation.
- Increases economic growth /domestic output.

Negatives

- It worsens income inequalities.
- Exposes consumers to exploitation.
- Worsens unemployment problem due to layoffs in the short run.
- Increases profit repatriation by foreign buyers.
- Promotes wasteful competition among private producers.
- Increases foreign influence in the economy.
- Exposes labour to exploitation.
- Leads to losses due to poor valuation, unscrupulous buyers and the high cost of the pro
- Leads to resentment from people who feel their assets were sold to foreigners.
- Provision of essential goods is reduced.
- Results into resource exhaustion/depletion

30. (a) Describe the structure of the industrial sector in Uganda.

- **Dominated** by small scale industries (**mainly** consists/comprises of small scale firms.
- **Mainly** produces low quantity of output.
- **Mainly** urban based.
- **Mainly** produces poor quality goods.
- **Many** industries are agro-based.
- **Mainly** employs semi-skilled and unskilled labour.
- **Mainly** produces consumer goods e.g. sugar, salt and bread etc.
- **Mainly** produces at excess capacity.
- **Mainly** employs labour intensive technology.
- **Most** of the industries are privately owned.
- **Mainly** comprises of processing industries
- **Mainly** comprises of import substituting industries / **mainly** produces for the local ma
- The sector has **high** imported raw material and intermediate product content.

- Durable consumer goods industries are **mainly** assembling plants.

(b) Examine the implications of the structure of Uganda's industrial sector.

Positives:

- Creates employment opportunities – ***since sector is mainly labour intensive-people get jobs.***
- Improves labour skills –***sector is mainly labour intensive – employed people learn skills.***
- Promotes self-reliance –***most industries are import substituting – reduces need to import.***
- Saves scarce foreign exchange – ***b'se most industries are import substituting –reduces high expenditure abroad.***
- Provides market to other sectors through linkages - ***since many industries are agro-based – use raw materials from agriculture.***
- Reduces income inequality – ***most industries are labour intensive – employed people earn income.***
- Promotes utilization of resources – ***many industries are agro –based – put to use agriculture raw materials e.g. coffee.***

Negatives:

- Rural urban migration and its evils –***b'se most industries are urban based – people move to urban areas looking for jobs.***
- Unbalanced regional development – ***b'se most industries are urban based – urban areas develop more compared to rural areas***
- Under- utilization of resources – ***b'se most industries use L.I.T/semi-skilled and unskilled labour hence low output.***
- There is low output/low GDP – ***b'se most industries employ poor technology hence low output is produced.***
- Worsens BOP problems – ***due to high component of imported raw materials hence high expenditure abroad.***
- Limited employment creation – ***b'se most industries operate on small scale therefore hire few p'ple.***

ECONOMIC DEVELOPMENT PLANNING:

31. (a) What are the principles of economic development planning?

- Principle of comprehensiveness – ***cover all* sectors and regions of the country.**
- Principle of consistence – ***should be in line with national, economic dev't objectives.***
- Principle of compatibility- ***should create linkages among sectors.***
- Principle of optimality – ***should put available resources to effective use.***
- Principle of sequence/sequencing –***plans should be implemented in an orderly manner.***
- Principle of proportionality – ***should allocate resources according to degree of priority.***
- Principle of feasibility –***planned targets should be achievable using available resources.***
- Principle of political acceptability -***should be in line gov't policies to attract financial and political support of the gov't.***

(b) Account for centralized planning in an economy.

- To control inflation / to attain price stability - ***thru increasing direct taxes to red disposable income and agg dd.***
- To reduce income inequality - ***thru adopting progressive taxation.***
- To reduce the unemployment problem - ***thru providing investment incentives to lower c of production so as to promote investment.***
- To solicit /request for foreign aid - ***thru drawing plans in order to convince donors extend aid.***
- To promote resource mobilization - ***thru drawing plans on how to mobilize funds fr local and foreign sources.***
- To reduce dependence on other countries / to promote self-reliance -***thru setting up imp substitution industries to reduce dependence on imports.***
- To promote economic growth - ***thru providing investment incentives to lower cost production and promote investment.***
- To improve the balance of payment position - ***thru setting up export promotion indust to increase volume of exports.***
- To identify areas suitable for public & private investment - ***Highly profitable areas are to privators but areas that are non-profitable are identified for public investment.***
- To encourage public participation in the development process - ***thru drawing plans to c for the needs of people thus attracting them to participate in development process.***
- To relate current circumstances / activities to future trends & targets.
- For proper allocation of scarce resources - ***thru setting priorities***
- To correct the defects of price mechanism especially during rapid structural changes - ***allocating resources to cater for unforeseen problems.***
- To ensure consistent use of resources.

32. (a) Explain the factors limiting economic development planning in Uganda

- **Limited** statistical data / information –***planners can't set realistic targets and objectives that can be achieved.***
- **Political** instability –***forces gov't to divert resources meant to implement plans to creat peace and stability and projects are not done.***
- **High** rates of inflation –***funds allocated for plan implementation become insufficient.***
- **Limited** skilled labour / limited labour skills -***planners can't set realistic targets and objectives that can be achieved.***
- **Limited** funds –***difficult to acquire items e.g. machinery to implement plans.***
- **Poor** infrastructure – ***limits co-ordination of planned activities.***
- **High** levels of corruption –***some gov't officials use money for plan implementation for personal gains and the projects are not done.***
- **Over** ambitious planning / plans being too ambitious – ***the plan targets far exceed avai resources and can't be achieved.***
- **Natural** calamities - ***forces gov't to divert resources meant to implement plans to solve natural disasters and projects are not done.***
- Dependence on external resources/foreign aid
- Limited will by the people.
- Interference by politicians.
- Non-responsive growing private sector.

(b) What measures are being taken to promote effective economic development planning in Uganda?

- Sufficient funds are being raised.
- Data collection is being ensured.
- Political interference in planning is being discouraged.
- Skills to planners are being provided.
- Political stability is being maintained.
- Inflation is being controlled.
- Dependence on nature is being minimized.
- Proper accountability is being encouraged.
- Infrastructure is being developed.
- Dependence on foreign aid /external resources is being reduced.
- Over-ambitious planning is being avoided.
- Government commitment in planning is being ensured.
- The private sector is being sensitized on its role in planning.

END

SEMINAR NOTES (SUMMARY)