INSTRUCTIONS TO CANDIDATES:

Attempt **all** questions in both sections **A** and **B.**

SECTION A

Answer **all** *parts of this question.*

1 a) (i) What is meant by the term **production possibility frontier**?   *(02 marks)*

   (ii) Give two **causes** of the shift of the production possibility frontier.   *(02 marks)*

 b) Study the table below and answer the questions that follow

output	0	1	2	3	4	5	6	7	8
Total Costs Ug shs'000	100	150	180	200	210	250	320	450	740

  Determine the

   (i) average fixed costs at output level **6**   *(02 marks)*

   (ii)average variable costs at output level **4**   *(02 marks)*

(c)   (i)   Distinguish between **injections** and **leakages** in an economy.   **(02 marks)**

        (ii)   Mention any **two** examples of **injections** in a four sector model
                economy.   **(02 marks)**

(d)   (i)   Distinguish between **tax evasion and tax exemption**.   **(02 marks)**
        (ii)   State any **two disadvantages of a tax** evasion in an economy.

                                                                                         (02 marks)

(e)   (i)   Differentiate between **a subsistence wage** and **a living wage**.   **(02 marks)**

        (ii)   Mention any **two determinants of wages** in an economy.   **(02 marks)**

2. With use of illustrations, explain the applicability of the concept of price elasticity of demand to incidence of a tax. **(20 marks)**

3. (a) Explain how the **cost of living index is computed** in an economy. **(08 marks)**

   (b) What **difficulties** are **faced in the computation of the cost of living** index? **(12 marks)**

4. (a) Why is there **need to promote the private sector** in developing countries? **(10 marks)**

   (b) Suggest possible policies that can be **adopted** to **promote the private sector** in developing countries. **(10 marks)**

5. (a) Given that the quantity of money in an economy is shs 3,000,000, its velocity of circulation is 10 and the number of transactions made are 600. Calculate the **general price level** in the economy. **(04 marks)**

   (b) What are the limitations of **Irving fishers' quantity theory of money** in explaining price changes in an economy? **(16 marks)**

6. (a) Differentiate between **Imported inflation** and **Structural inflation**. **(04 marks)**

   (b) Explain how inflation can be **controlled** in an economy. **(16 marks)**

7. (a) Distinguish between;

   (i) **Trade diversion** and **Trade creation**. **(02 marks)**

   (ii) **Customs union** and **Preferential trade area**. **(02 marks)**

   (b) Explain the **barriers to effective regional economic integration** among developing countries. **(16 marks)**

8. (a) Describe the features of the informal sector. *(06 marks)*
   (b) Assess the contributions of the informal sector to an economy. *(14 marks)*

9. (a) Explain the Malthusian population theory. *(06 marks)*
   (b) How relevant is the Malthusian population theory to the economies of LDCs. *(14marks)*

10. (a) Examine the prerequisites for successful planning in LDCs. *(10 marks)*
    (b) Discuss factors limiting successful planning in LDCs. *(10 marks)*

E N D