

**THE UNITED REPUBLIC OF TANZANIA  
NATIONAL EXAMINATIONS COUNCIL  
ADVANCED CERTIFICATE OF SECONDARY EDUCATION  
EXAMINATION**

**151/1**

**ECONOMICS 1  
ECONOMIC THEORY  
(For Both School and Private Candidates)**

***Time: 2:30 Hours***

***Monday, 15<sup>th</sup> February 2010 p.m.***

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**INSTRUCTIONS**

1. This paper consists of **ten (10)** questions in sections A and B.
2. Answer **five (5)** questions choosing at least **two (2)** questions from each section.
3. Each question carries **twenty (20)** marks.
4. Credit will be awarded for brief and well argued answers.
5. Cellular phones are **not** allowed in the examination room.
6. Write your **Examination Number** on every page of your answer booklet(s).

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## SECTION A

1. (a) Can a society satisfy all its wants? Justify your answer.  
(b) 'Where there is scarcity; opportunity cost and choice is inevitable.' Discuss.
2. Explain the importance and limitation of price mechanism.
3. Critically discuss the Ricardian theory of Rent.
4. Briefly explain the following statements:
  - (a) Demand for food in general is inelastic but demand for a specific food is elastic.
  - (b) The supply of land for the economy as a whole is fixed but the supply of land for a particular use is not fixed.
  - (c) In real sense all commodities are in competitive demand.
  - (d) Demand for any factor of production is said to be derived.
5. With the help of a well labelled graphs show the nature of cross elasticity for
  - (a) Substitute goods
  - (b) Complementary goods
  - (c) Independent goods.

## SECTION B

6. (a) Explain the concept of monopolistic competition.  
(b) Describe the necessary conditions for profit maximization behaviour of firms under perfect competition.
7. Use a diagram and laws of returns to distinguish economies of scale from diseconomies of scale.
8. Consider the table below which shows the price and costs faced by a profit-maximizing firm operating under conditions of perfect competition.

Total Fixed Cost (TFC)	Price (P)	Total variable cost (TVC)
1,000,000	100	10Q

Find the profit maximizing quantity.

**Note:** Q = Quantity.

9. (a) Explain the types of mobility of labour.  
(b) State the merits of mobility of labour.
10. 'Money is what makes money.' Explain.