

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

151/1

**ECONOMICS 1**

**ECONOMIC THEORY**

*(For Both School and Private Candidates)*

**Time : 1 ½ Hours**

**ANSWERS**

**03 May 2000 P.M**

---

**Instructions**

1. This paper consists of sections A and B.
2. Answer **five (5)** questions, choosing at least **two (2)** questions from each section.
3. All questions carry equal weight.
4. Communication devices and any unauthorised materials are **not** allowed in the examination room.
5. Write your **Examination Number** on every page of your answer booklet(s).

maktaba.tetea.org



**1. Lionel Robbins has defined economics as "A science which studies human behaviour as a relationship between ends and scarce means which have alternative uses". Explain why this definition is not the only definition of economics?**

Robbins' definition emphasizes scarcity and choice, but economics also involves studying the production, distribution, and consumption of goods and services. Limiting it to scarcity ignores the broader role of economics in understanding how resources are organized in society.

The definition does not consider the normative aspects of economics, which deal with value judgments and welfare issues. Economics is not only about choices under scarcity, but also about equity, justice, and improvement of human welfare.

It also fails to highlight the importance of growth and development. Modern economics looks at how nations can achieve sustainable growth, reduce poverty, and improve living standards, which is not fully captured in Robbins' definition.

Furthermore, Robbins' definition ignores macroeconomic issues such as employment, inflation, and national income determination. These issues are central to modern economic study but are outside the narrow scope of scarcity.

Lastly, economics today also covers international trade, globalization, and economic integration. These dimensions go beyond Robbins' framework, making his definition insufficient as the sole definition of economics.

**2. What is a transition period? With reference to your study of economic systems show why the transition is necessary.**

A transition period is the phase during which an economy shifts from one type of economic system to another. It is the adjustment process in which structures, policies, and institutions are changed to fit a new economic order.

Transition is necessary when a system fails to achieve efficiency or welfare. For example, centrally planned economies often transition to market-oriented systems to improve efficiency and resource allocation.

It is also important when an economy wants to attract foreign investment and participate in globalization. Transition from protectionist to liberalized systems allows economies to integrate with the global market.

Another reason is technological change. Transition helps economies shift from traditional to modern production methods, ensuring they remain competitive and productive.

Transition is also necessary for achieving social and political objectives. For example, Tanzania moved from Ujamaa socialism towards a mixed economy to balance social welfare with private sector growth.

### **3. (a) Explain three cases to show how a firm may gain from specialization.**

Specialization increases efficiency because workers or firms focus on tasks where they have skills or comparative advantage. This reduces time wastage and increases productivity.

It allows for economies of scale. When a firm specializes, it can produce in larger quantities, reducing average costs and improving competitiveness.

Specialization also fosters innovation. Concentrating on a specific process or product encourages firms to invest in research, improving quality and reducing production costs.

### **3. (b) Explain two cases to show how specialization may cause problems to a firm.**

Specialization may lead to over-dependence on one product or service. If demand for that product falls, the firm may face severe losses due to lack of diversification.

It can also cause monotony for workers. Repeating the same task reduces job satisfaction, which may lower morale, increase absenteeism, and reduce productivity.

### **4. Explain the following:**

(a) **Market theory** refers to the study of how buyers and sellers interact to determine prices and quantities of goods and services. It explains the forces of demand and supply and how they influence market equilibrium.

(b) **Market price** is the actual price at which goods and services are exchanged in the market. It is determined by the interaction of demand and supply.

(c) **Open market** is a market where there are no restrictions on entry or exit of buyers and sellers, and goods can be freely traded at competitive prices.

(d) **Free market** is a system where economic activities are guided entirely by the forces of demand and supply without government interference.

(e) **Local market** refers to a market limited to a specific geographic area where goods and services are exchanged among people in that community.

**5. With reference to specific examples, draw graphs to show:**

(a) **Two goods that are jointly supplied:** For example, beef and hides. An increase in beef supply automatically increases hide supply. The graph shows a positive relationship between the two goods.

(b) **Regressive supply curve:** This occurs when after a certain level of wages, workers supply fewer hours of labor, preferring leisure. The curve bends backward at higher wage levels.

**(c) Price determination by supply and demand:**

- (i) When supply is perfectly inelastic, the supply curve is vertical, and price is determined entirely by shifts in demand.
- (ii) When demand is perfectly elastic, the demand curve is horizontal, and price is fixed regardless of changes in supply.

(d) **Economic significance of the graphs:** Joint supply shows interdependence of goods, regressive supply explains labor market behavior, inelastic supply shows the importance of demand in fixing prices, and perfectly elastic demand reflects price rigidity in competitive markets.

**6. (a) Draw a graph to show the advantage of advertising to an entrepreneur producing under conditions of imperfect competition. Explain your graph.**

Under imperfect competition, advertising shifts the firm's demand curve to the right. Initially, the firm faces demand curve D1. After advertising, more consumers become aware of the product, increasing demand, so

the demand curve shifts to D2. The firm can now sell more at a higher price or maintain the same price but enjoy higher sales volume. This increases total revenue and profit.

The advantage of advertising here is that it helps to differentiate the firm's product from competitors, giving it more market power. It reduces the elasticity of demand for its product, allowing it to charge higher prices without losing too many customers. This way, advertising acts as a tool for increasing both sales and profitability under monopolistic or oligopolistic competition.

**6. (b) State two reasons why advertising is NOT necessary under perfect competition.**

Advertising is not necessary under perfect competition because all firms produce homogeneous products. Since goods are identical, there is no need to convince buyers of quality differences, as they are all the same.

Another reason is that buyers already have perfect knowledge of prices and products in perfect competition. This eliminates the role of advertising in informing customers, making it unnecessary and wasteful.

**7. “No profit, no production”. Does this mean that wages, interest and rent are not important payments in production?**

The statement means that profit is a key motive for entrepreneurs to take risks and organize production. Without the expectation of profit, entrepreneurs would not engage in business activities, and production would halt.

However, this does not mean that wages, interest, and rent are unimportant. Wages are crucial because they motivate labor to provide effort and skills. Without wages, workers would not participate in production.

Interest is equally important since it encourages lenders to provide capital. If interest is not paid, savings would not be mobilized into investments, and production would be limited.

Rent is also necessary because it enables firms to access land and other natural resources. Without payment of rent, firms would lack the necessary space and resources to produce.

Therefore, while profit is the driving force behind production, wages, interest, and rent are fundamental factor payments that sustain the entire production process.

**8. “People find life difficult because they don’t have money”. Should governments, therefore; (a) stop using money OR (b) print more and more money to make the life of the people happier?**

Stopping the use of money would disrupt the modern economy. Money serves as a medium of exchange, unit of account, and store of value. Without money, people would have to rely on barter, which is inefficient and impractical in a complex economy. Therefore, abolishing money would not solve the problem of poverty.

Printing more and more money would also not make people’s lives happier. If governments print excessive money without an increase in goods and services, inflation occurs. Prices rise rapidly, and the purchasing power of money falls, making life even harder for ordinary citizens.

Instead, governments should focus on policies that increase production, create employment, and stabilize prices. This will ensure that people earn enough income and money retains its value, improving their welfare sustainably.

**9. Explain the various concepts of cost.**

One concept is **fixed cost**, which refers to expenses that do not change with the level of output. Examples include rent, insurance, and salaries of permanent staff.

Another is **variable cost**, which changes with output. These include costs of raw materials, wages for casual workers, and fuel expenses.

**Total cost** is the sum of fixed and variable costs at each level of production. It represents the full cost of producing a given level of output.

**Average cost** is total cost divided by the number of units produced. It shows the cost of producing one unit of output.

**Marginal cost** is the additional cost incurred in producing one more unit of output. It is crucial in decision-making because firms expand output until marginal cost equals marginal revenue.

**10. How is the price of land determined?**

The price of land is determined mainly by demand and supply forces. Since land is fixed in supply, the price is influenced primarily by demand. When demand for land is high, especially in urban areas or regions with fertile soil, its price rises.

The location of land also determines its price. Land in urban centers or areas with good infrastructure fetches higher prices than land in remote places.

Another factor is fertility and productivity. Agricultural land that produces higher yields is valued more than infertile land, raising its price.

Government policies and regulations also affect land prices. Taxes, land reforms, and zoning laws can increase or decrease the value of land.

Lastly, speculation and future expectations play a role. If investors expect land prices to rise due to development projects, they are willing to pay more, pushing up current land prices.