THE UNITED REPUBLIC OF TANZANIA

NATIONAL EXAMINATIONS COUNCIL

ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

151/1 **ECONOMICS 1**

(For Both School and Private Candidates)

Time: 3 Hours **ANSWERS** **Year: 2006**

Instructions

1. This paper consists of EIGHT questions.
2. Answer all questions in section A and choose two questions each from section B and C.

Prepared by: Maria Marco for TETEA

1. Write short notes on:

(a) Monopsony and oligopsony

Monopsony is a market situation where there is only one buyer for a particular good or service, giving the buyer power to influence prices and terms. It often occurs in labor markets where a single firm hires most of the workers.

Oligopsony refers to a market with few buyers and many sellers. Buyers have significant influence over pricing and supply decisions, as seen in agricultural markets where a few large companies purchase produce from many farmers.

(b) The wage/price spiral

The wage/price spiral is a situation where rising wages increase production costs, prompting firms to raise prices. Higher prices then lead to demands for higher wages, creating a cycle of inflation. This process can be difficult to break and often leads to persistent inflation if not controlled.

(c) Total revenue test

The total revenue test is used to determine the price elasticity of demand. If a price increase leads to a decrease in total revenue, demand is elastic. If total revenue increases despite a price increase, demand is inelastic. If total revenue remains unchanged, demand is unit elastic.

(d) Perfect competition

Perfect competition is a theoretical market structure characterized by many buyers and sellers, homogeneous products, free entry and exit, perfect information, and firms being price takers. No single firm can influence the market price, and all resources are efficiently allocated.

2. Outline the non-price factors that may affect supply.

- Technology: Improved technology enhances productivity and increases supply.

- Cost of production: Changes in input costs (labor, raw materials) affect supply levels.

- Government policies: Taxes, subsidies, and regulations influence the cost of supplying goods.

- Weather conditions: In agriculture, favorable weather boosts supply while poor weather reduces it.

- Expectations: If producers expect higher future prices, they may reduce current supply to sell later.

- Number of suppliers: More producers in the market increase total supply.

- Availability of factors of production: Scarcity or abundance of land, labor, and capital influences supply.

3. Why is inflation seen as a problem?

Inflation reduces the purchasing power of money, making it harder for people to afford goods and services. It distorts consumer spending and savings behavior, as people may spend quickly before prices rise further. High inflation harms fixed-income earners and erodes savings. It can lead to uncertainty in investment, increase the cost of borrowing, and create wage-price spirals. Uncontrolled inflation destabilizes the economy and worsens inequality.

4. Give the motives for demanding money and expound on the factors that affect the demand for money.

Motives:

- Transaction motive: People hold money to carry out daily transactions.

- Precautionary motive: Money is kept aside for unexpected needs or emergencies.

- Speculative motive: Money is held to take advantage of future investment opportunities.

Factors affecting demand for money:

- Income level: Higher income increases transaction and precautionary demand.

- Interest rate: Higher interest reduces speculative demand as people invest instead of holding cash.

- Price level: When prices are high, people need more money for the same quantity of goods.

- Economic stability: In uncertain times, precautionary demand increases.

- Financial innovations: Access to credit cards or mobile money reduces need to hold cash.

5. Account for the significance of the entrepreneur as a factor of production.

The entrepreneur organizes and coordinates other factors of production—land, labor, and capital. They take risks to start businesses, innovate new products or processes, and drive economic development. Entrepreneurs make decisions about resource allocation, pricing, and market strategy. They create employment and contribute to national income. Without entrepreneurs, production processes lack direction and purpose, making them essential for efficient functioning of the economy.

6. Discuss the non-income factors that can affect consumption.

Non-income factors influence a consumer's ability or willingness to spend regardless of their actual income level. These include:

- Consumer expectations: If people expect prices to rise or fear shortages, they may increase consumption now. Similarly, fear of economic downturns can reduce spending even if income remains the same.

- Availability of credit: Easy access to loans or installment payment systems enables consumers to buy beyond their current income. Restrictions on borrowing reduce consumption.

- Wealth and assets: Individuals who own valuable assets (like land, stocks, houses) may consume more due to the sense of financial security, regardless of their monthly income.

- Interest rates: When interest rates are low, borrowing becomes cheaper and saving less attractive, encouraging people to spend more.

- Social influence and advertisement: Peer pressure, trends, and persuasive advertising affect consumption patterns even if income does not change.

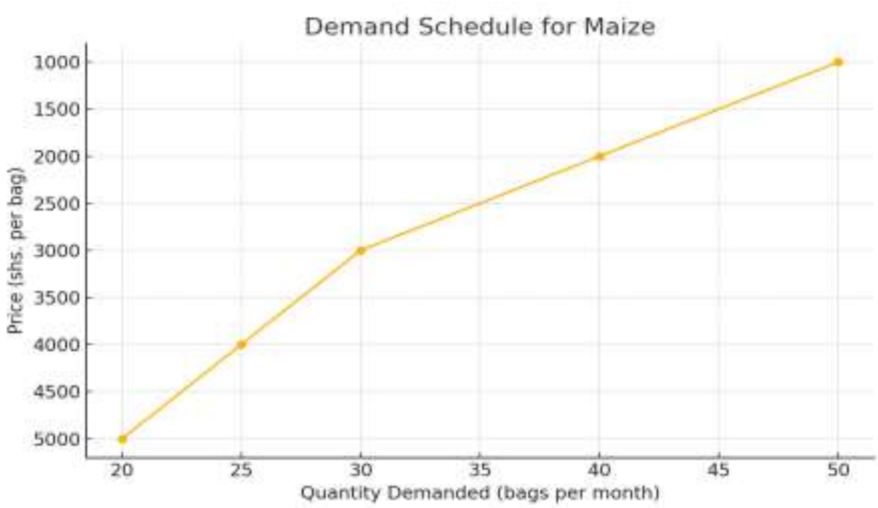
- Demographics and lifestyle: Family size, age, education level, and occupation affect what and how much is consumed, beyond income alone.

7. Study the table below and answer the questions that follow:

Price (shs. per bag)	Quantity Demanded (bags/month)
5000	20
4000	25

3000	30	
2000	40	
1000	50	

(a) Graphically portray the demand schedule for maize above.



(b) Using the graph, explain why the law of demand is sometimes called the law of downward-sloping demand.

The graph of the demand schedule slopes downwards from left to right, showing that as price decreases, quantity demanded increases. This illustrates the law of demand, which states an inverse relationship between price and quantity demanded—when other factors remain constant, consumers buy more at lower prices and less at higher prices. Hence, the demand curve slopes downward.

8. (a) Briefly discuss three features of the antagonistic pre-capitalist mode of production.

- Class struggle: Society was divided into exploiters (landlords or chiefs) and the exploited (peasants or slaves), leading to resistance and conflict.

- Subsistence production: Most people produced for personal use rather than for exchange, limiting economic development.

- Forced labor and tribute: Workers were compelled to give a portion of their output to rulers, reducing incentives for productivity.

(b) Highlight key elements of reform programmes showing that Tanzania is in a period of transition to a market economy.

- Privatization: Government sold off state-owned enterprises to private investors to promote efficiency.

- Trade liberalization: Removal of import/export restrictions to integrate into global markets.

- Deregulation: Reducing government control over pricing and market entry to encourage competition.

- Financial reforms: Establishment of private banks and financial institutions to improve credit access.

- Encouragement of foreign investment: Policies were implemented to attract foreign capital and expertise.

9. "The price elasticity of supply depends upon the amount of time the producer has to respond to price changes". Discuss.

In the short run, some factors of production are fixed, such as machinery or factory size. Producers cannot easily adjust output, making supply inelastic. Over time, however, firms can increase capacity, hire more workers, or enter the market. This makes supply more elastic in the long run, as producers have the time to respond effectively to price signals. Therefore, the longer the time period, the greater the elasticity of supply.

10. Discuss the shortcomings of the price mechanism.

- Income inequality: The price mechanism may allocate goods to those with ability to pay rather than need, increasing inequality.

- Market failure: It fails to consider externalities like pollution, leading to overproduction or underproduction of some goods.

- Underprovision of public goods: Goods like roads or defense are not produced efficiently through market forces alone.

- Monopolies and market power: Large firms can manipulate prices, reduce competition, and restrict output.

- Lack of perfect information: Consumers and producers may make poor choices due to ignorance or misinformation.

- Business cycles: Price mechanism does not prevent booms and recessions, which cause instability and unemployment.