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: 2010**

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.

1. (a) Can a society satisfy all its wants? Justify your answer.
No, a society cannot satisfy all its wants. Human wants are unlimited while the resources to satisfy them are limited. This basic economic problem of scarcity forces individuals and societies to make choices and prioritize their needs. New wants continuously arise due to innovation, advertising, and population growth. Even with technological advancement, the finite nature of land, labor, and capital makes it impossible to fulfill all desires simultaneously.

(b) 'Where there is scarcity; opportunity cost and choice is inevitable.' Discuss.
Scarcity means that resources are limited in supply relative to wants. Because of scarcity, societies must make choices about how to allocate resources. Choosing one option involves giving up another, which leads to opportunity cost—the value of the next best alternative foregone. For example, using land to grow food means it cannot be used to build houses. Therefore, scarcity compels individuals and governments to make rational decisions by comparing opportunity costs.

2. Explain the importance and limitation of price mechanism.
Importance:
Efficient allocation: The price mechanism allocates resources to goods most demanded, guiding producers to areas of high profitability.
Consumer sovereignty: Consumers influence production through their purchasing choices, encouraging firms to meet their preferences.
Incentives: High prices encourage production, while low prices discourage wastage and overproduction.
Self-regulation: It adjusts supply and demand through changes in price without central authority.
Flexibility: It allows quick responses to market changes such as shortages or surpluses.

Limitation:
Market failures: Price mechanism may not account for externalities like pollution or public goods.
Inequality: It can lead to unequal distribution of goods and income, marginalizing the poor.
Imperfect information: Consumers and producers may not have full knowledge, leading to wrong decisions.
Monopoly power: Prices may be distorted when few firms dominate a market.
Underprovision of essential services: Free markets may ignore social services like education or healthcare.

3. Critically discuss the Ricardian theory of Rent.
Ricardian theory of rent, developed by David Ricardo, explains economic rent as arising from differences in land fertility. According to the theory, rent is the payment made to landowners for the use of land whose supply is fixed and whose productivity varies.

Key points:
Land is in fixed supply and has varying fertility.
Rent is a surplus earned by more fertile land over marginal land.
Rent does not enter into the cost of production for marginal land.

Criticism:
It only applies to agriculture and ignores rent in urban or commercial use.

Assumes land is the only variable factor and neglects capital and labor contributions.
Assumes perfect competition, which is unrealistic in modern markets.
Neglects demand side factors in determining rent.

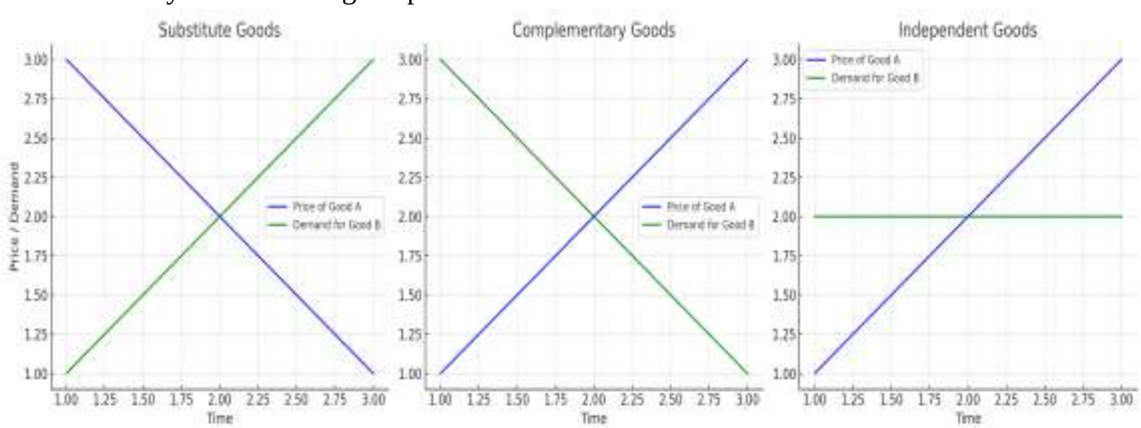
4. Briefly explain the following statements:
(a) Demand for food in general is inelastic but demand for a specific food is elastic.
Food in general is a necessity, so people continue to buy it regardless of price changes—hence, inelastic demand. However, for a specific food like rice or bread, many substitutes exist. If the price rises, consumers can switch to alternatives, making the demand 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.
Total land area cannot be increased, hence fixed supply. However, the allocation of land between uses like agriculture, housing, and industry can change depending on demand and policy, making supply flexible for specific uses.

(c) In real sense all commodities are in competitive demand.
Every commodity competes for the consumer's limited income. When consumers choose one good, they forgo others, indicating competitive demand. Even unrelated goods compete indirectly as substitutes for expenditure.

(d) Demand for any factor of production is said to be derived.
Factors of production like labor or capital are not demanded for themselves but for the goods they help produce. Their demand depends on the demand for the final products, making it a derived demand.

5. With the help of a well labelled graph show the nature of cross elasticity for
(a) Substitute goods
Cross elasticity is positive. As the price of good A rises, demand for substitute B increases.
(b) Complementary goods
Cross elasticity is negative. When the price of good A increases, demand for complement B decreases.
(c) Independent goods
Cross elasticity is zero. Change in price of one has no effect on demand for the other.



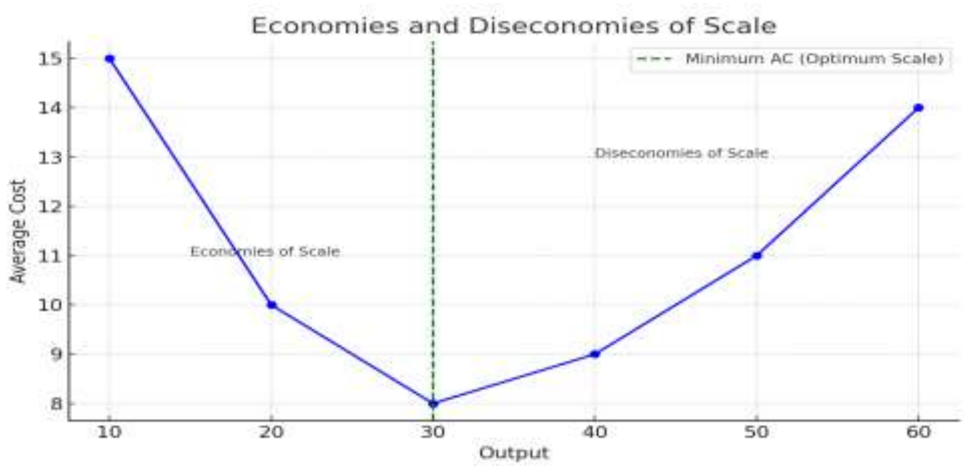
6. (a) Explain the concept of monopolistic competition.
Monopolistic competition is a market structure where many firms sell similar but not identical products. Each firm differentiates its product through branding, quality, or customer service. Entry and exit are relatively easy, and firms have some control over pricing.

Features:
Many sellers
Product differentiation
Free entry and exit
Some price-making power
Heavy use of advertising

(b) Describe the necessary conditions for profit maximization behaviour of firms under perfect competition.
Firms maximize profit where marginal cost (MC) equals marginal revenue (MR). In perfect competition:
Price = MR = AR (Average Revenue)
Firms adjust output until MC = MR
In short run, firms may earn abnormal, normal, or losses
In long run, entry and exit ensure only normal profits remain

7. Use a diagram and laws of returns to distinguish economies of scale from diseconomies of scale.
Economies of scale: Falling average costs as output increases due to specialization, bulk buying, etc.

Diseconomies of scale: Rising average costs due to managerial complexity, poor communication, etc.



8. Consider the table and find the profit maximizing quantity:

Total Fixed Cost	Price (P)	Total Variable Cost
1,000,000	100	10Q

TR = P × Q = 100Q

TC = TFC + TVC = 1,000,000 + 10Q
Profit = TR - TC = 100Q - (1,000,000 + 10Q) = 90Q - 1,000,000

To maximize profit, maximize 90Q - 1,000,000
Profit increases as Q increases. So profit is maximized when Q is highest before MC = MR.

Since MC = 10 and MR = 100, profit keeps rising with Q. There's no upper limit given, but in a realistic market, other constraints would apply. In this model, any higher Q increases profit.

9. (a) Explain the types of mobility of labour.
Geographical mobility: Ability of labor to move from one location to another for work.
Occupational mobility: Ability to change from one job or profession to another.
Vertical mobility: Movement from lower to higher status or rank in the job hierarchy.
Horizontal mobility: Movement within the same job level across sectors or firms.

(b) State the merits of mobility of labour.
Efficient resource allocation: Labor moves where it's most needed.
Reduces unemployment: Workers relocate to where jobs are available.
Improves standard of living: Workers find better opportunities.
Encourages economic growth: Optimal use of human capital across sectors.

10. ‘Money is what makes money.’ Explain.

The phrase "money is what makes money" reflects the powerful role of capital in generating more income and wealth. It means those who possess financial resources have the means to invest, grow their wealth, and create continuous income streams. Here are six strong explanatory points:

Money enables investment opportunities: Those with capital can invest in businesses, real estate, stock markets, or savings schemes. These investments generate returns such as profit, interest, dividends, or rent, leading to more money over time. It gives individuals the ability to take advantage of wealth-growing opportunities.

Money increases production capacity: In a business context, money is used to buy raw materials, hire labor, purchase machines, and improve technology. These inputs lead to increased production, which when sold generates more revenue. Thus, money initiates and expands the productive process that results in profit.

Money provides access to credit and financial leverage: Having money or assets allows individuals or businesses to secure loans or attract investors. This borrowed capital can be used to expand operations, and if the returns exceed the cost of borrowing, it creates additional income. Therefore, money attracts more money through financial instruments.

Money reduces dependency and increases control over resources: Financial independence allows entrepreneurs or investors to take risks, make decisions quickly, and enter profitable markets. This autonomy leads to strategic choices that grow wealth further. Those without capital depend on wages, limiting their ability to accumulate wealth.

Money facilitates reinvestment and compounding: Profits made from initial investments can be reinvested, creating a compounding effect. Over time, this continuous reinvestment of returns builds large wealth, especially in environments with consistent growth or high interest rates. The more money one has, the greater their reinvestment potential.

Money attracts business and partnership opportunities: Financially stable individuals or firms often receive proposals for new ventures, joint projects, or exclusive deals. Wealth acts as a magnet in the economic system, drawing in more sources of income simply because others see them as credible, secure, and reliable.

In essence, money serves as both a tool and a resource that not only supports consumption but also fuels continuous wealth generation, reinforcing the cycle where money begets more money.