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: 2011**

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) Distinguish between the following:

Specific factor of production and Non-specific factor of production.

A specific factor of production is one that can only be used in a particular industry or production process. For example, a tailor's sewing machine is specific to garment making. A non-specific factor of production can be used across multiple industries; for instance, general labor or electricity can serve various production sectors.

(b) Specialization by process and Specialization by craft.

Specialization by process refers to dividing the production task into different stages where each worker focuses on a single step, increasing efficiency. For example, in a car assembly line, one worker installs the engine while another fits the doors. Specialization by craft means one worker produces the entire product from start to finish using multiple skills, as in traditional shoemaking.

(c) Very short run period and Short run period.

The very short run period is a time frame in which no factor of production can be changed; supply is fixed. In contrast, the short run period allows change in variable inputs like labor, but fixed inputs like capital remain unchanged.

(d) Production and Productivity.

Production refers to the total output of goods and services produced. Productivity is the efficiency of production, measured as output per unit of input such as labor productivity (output per worker).

2. Describe the advantages and disadvantages of centrally controlled economies.

Advantages:

Ensures equitable distribution of resources and social welfare.

Provides full employment by planning production and labor allocation.

Controls inflation and monopolies through strict regulation.

Focuses on national priorities like education, defense, and healthcare.

Avoids wastage through coordinated production planning.

Disadvantages:

Lack of individual incentives due to absence of profit motive.

Poor responsiveness to consumer preferences, leading to shortages or surpluses.

Bureaucracy and slow decision-making due to centralized control.

Limited innovation due to lack of competition.

Suppression of private enterprise and personal freedom.

3. Define diseconomies of scale and explain six (6) limitations of small scale firms to expansion.

Diseconomies of scale occur when a firm grows too large and the average cost of production starts increasing due to inefficiencies.

Limitations of small scale firms to expansion:

Limited capital: Small firms often lack access to enough finance for investment and expansion.

Poor infrastructure: They may operate in areas with inadequate power, water, or transport.

Limited market access: Small firms face difficulty reaching broader markets due to weak networks.

Low technology: Inability to afford modern machinery reduces competitiveness.

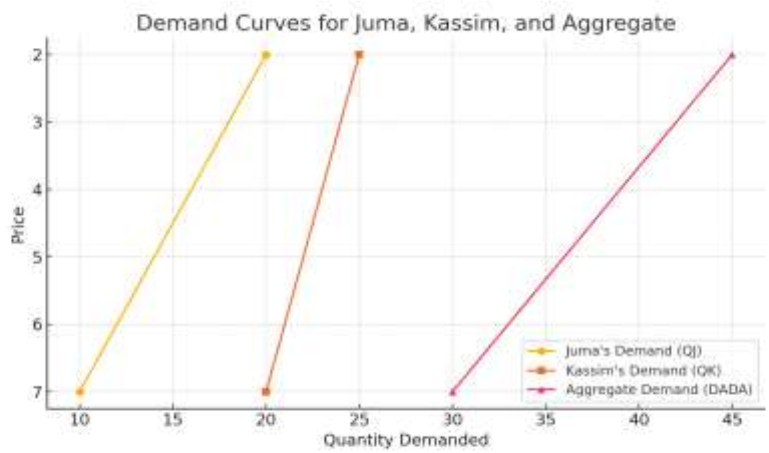
Inadequate skilled labor: Difficulty in attracting and affording qualified personnel.

Government policy and taxation: High taxes and complex regulations may discourage growth.

4. The following table shows demand of Juma and Kassim for a product:

PRICE	QJ	QK
2	20	25
7	10	20

(a) On the same set of axes draw the demand curve for Juma (QJ), demand curve for Kassim (QK) and the aggregate demand curve (D_AD_A).



(b) What do you think might have caused the differences in demand by Juma and Kassim?

Income levels: Kassim may have higher income, enabling greater consumption at the same price.

Tastes and preferences: Kassim may prefer the product more than Juma.

Number of dependents: Kassim may be purchasing for a larger household.

Substitute availability: Juma may have access to alternatives, reducing his demand.

Brand loyalty or awareness: Kassim may trust or value the product more.

(c) Whose demand is more elastic? Give reasons for your answer.

Juma's demand is more elastic. His quantity demanded changes more significantly with price. From 2 to 7, his quantity drops from 20 to 10 (50% decrease), while Kassim's drops from 25 to 20 (20% decrease). Elastic demand reflects higher sensitivity to price changes, as seen in Juma's case.

5. Write short notes on the following concepts as used in marketing:

(a) World market

This refers to the global platform where goods and services are exchanged between countries. It includes international trade of commodities, capital, and labor, and is influenced by exchange rates, trade policies, and global demand.

(b) Market place

A marketplace is a physical or digital environment where buyers and sellers meet to exchange goods or services. Examples include supermarkets, open-air markets, or online platforms like Amazon.

(c) Market demand

Market demand is the total quantity of a good or service that all consumers in a market are willing and able to buy at various prices over a specific period. It represents the sum of individual demands.

(d) Market size

Market size indicates the total sales or potential sales volume for a product or service within a specific market. It is often measured in terms of revenue or the number of customers.

(e) Market structure

Market structure refers to the characteristics of a market that influence the behavior and performance of firms within it. It includes the number of sellers, product differentiation, entry barriers, and price-setting power. Common structures include perfect competition, monopoly, and oligopoly.

6. (a) Distinguish between nominal and real wages.

Nominal wages refer to the monetary amount paid to a worker for their labor without adjusting for inflation. It is the wage received in current currency units, such as 500,000 Tanzanian shillings per month.

Real wages refer to the purchasing power of nominal wages, adjusted for changes in the price level. It indicates the quantity of goods and services a worker can buy with their earnings. If inflation rises while nominal wages remain constant, real wages decline.

(b) Explain five (5) factors that determine real wages.

Level of prices: When prices of goods and services increase, the purchasing power of wages decreases, reducing real wages.

Taxation: Higher income taxes reduce the amount of money a worker takes home, affecting real wage levels.

Productivity of labor: More productive workers are often rewarded with higher wages, which increases their real income.

Level of skills and education: Workers with specialized skills or higher education tend to earn more, improving their real wage.

Cost of living: If living expenses (like housing, transport, food) are high, even a high nominal wage may result in a low real wage.

7. State five (5) advantages and five (5) disadvantages of large scale production.

Advantages:

Economies of scale: Large firms can reduce cost per unit through bulk buying and efficient machinery.

Increased specialization: Workers can focus on specific tasks, boosting productivity.

Better use of resources: Large firms can afford advanced technology and professional management.

Access to credit: Large firms have a better reputation and can obtain loans easily.

Strong market position: They can dominate the market, gain customer loyalty, and influence prices.

Disadvantages:

Diseconomies of scale: Management becomes complex and less efficient as the firm grows.

Less personal attention: Workers may feel alienated, lowering morale and productivity.

Risk of overproduction: Producing too much may result in unsold stock and losses.

Bureaucracy: Decision-making becomes slower due to multiple layers of management.

Market monopoly: Large firms may exploit consumers by setting high prices or limiting choices.

8. (a) Highlight five (5) reasons as to why the demand curve is negatively sloped from left to right.

Law of diminishing marginal utility: As more units of a good are consumed, additional satisfaction declines, so consumers pay less.

Income effect: A fall in price increases consumers' real income, enabling them to buy more.

Substitution effect: As the price of a good falls, consumers switch from more expensive substitutes to the cheaper product.

Entry of new buyers: A lower price attracts new consumers who could not afford it previously, increasing quantity demanded.

Multiple uses: When the price drops, goods can be used for additional purposes, raising demand (e.g., electricity).

(b) Under what circumstances can a demand curve be positively sloped from left to right?

Veblen goods: Luxury goods where higher price increases their prestige, attracting more buyers.

Giffen goods: Inferior goods where price rises lead to more demand because the income effect dominates the substitution effect.

Speculative demand: Consumers buy more when prices rise, expecting further increases.

Necessities with inelastic demand: People may still buy more despite price hikes.

Ignorance: Some consumers equate higher price with higher quality, leading to more purchases.

9. Discuss five (5) limitations of monetary policy in underdeveloped countries.

Underdeveloped financial institutions: Poor banking systems make it hard for monetary policy tools to work effectively.

High level of informal sector: A large part of economic activity occurs outside formal systems, reducing policy reach.

Weak central banks: Limited autonomy, poor data, and lack of expertise hinder effective policy formulation.

Low responsiveness to interest rates: Credit markets may not react as expected due to weak linkages or lack of access.

Inflation from structural causes: Inflation may arise from supply-side problems rather than demand, making monetary tools ineffective.

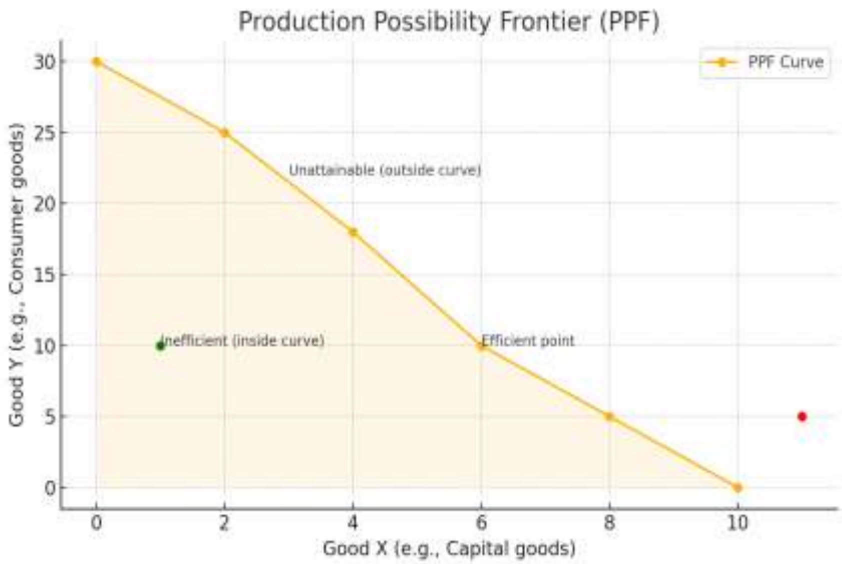
10. (a) Describe three (3) principles of Economics.

Opportunity cost: The cost of forgoing the next best alternative when making a decision.

Marginal analysis: Economic decisions are made by comparing additional benefits and costs of a decision.

Scarcity and choice: Resources are limited, forcing individuals and societies to make choices about allocation.

(b) Draw the production possibility frontier and highlight five (5) concepts that it illustrates.



Scarcity: Limited resources force trade-offs between goods.

Opportunity cost: Producing more of one good means less of another.

Efficiency: Points on the curve represent efficient use of resources.

Inefficiency: Points inside the curve indicate underutilization.

Economic growth: Outward shift of the curve shows increase in productive capacity.