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: 2014**

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) Describe six features of human wants.

Wants are unlimited. Humans always desire more goods and services; as soon as one want is satisfied, another emerges, such as wanting a car after getting a bicycle.

Wants are recurring. Some wants come back repeatedly, such as the need for food, water, or shelter every day.

Wants are competitive. Due to limited resources, individuals must choose between competing wants. For example, choosing between buying food or paying school fees.

Wants vary by person and place. Different people or regions desire different things depending on culture, climate, or lifestyle. For example, warm clothing is a want in cold regions but not in coastal Tanzania.

Wants can be satisfied. Some wants are finite and can be fully satisfied, such as the need for a pair of shoes.

Wants change over time. As technology and tastes evolve, new wants replace old ones. For example, smartphones have replaced basic mobile phones in daily needs.

(b) Analyse four factors which determine scale of production.

Availability of capital. Large-scale production requires investment in machines, land, and buildings. Firms with access to credit or investor funding can produce on a bigger scale.

Market size. If there is high demand, firms can produce more to meet the market needs. For example, soap manufacturers in urban areas scale up production due to population density.

Level of technology. Advanced machinery enables mass production with fewer workers, allowing firms to expand output efficiently.

Managerial ability. Skilled and experienced management can organize large operations, coordinate labor, and manage logistics, encouraging higher production levels.

2. (a) How Privatization process relates with the improvements in the standard of life in Tanzania? (Provide six points).

Improved services. Privatized companies provide better quality and reliable services. For example, private mobile companies offer faster internet than the former state monopoly.

Employment creation. Private investors often expand operations, opening new job opportunities in banking, agriculture, telecom, and retail.

Technology transfer. Foreign private firms introduce modern machines, systems, and practices which improve productivity and consumer satisfaction.

Increased choices. Consumers have more options due to competition among private providers, such as in the electricity or transport sectors.

Boosted government revenue. Selling public enterprises provides funds that can be used for social services like health and education.

Infrastructure development. Private companies invest in roads, power plants, and ICT infrastructure, supporting national growth and improving livelihoods.

(b) Explain four measures which can be used to control private sectors in Tanzania.

Licensing and regulation. The government uses permits and regulations to ensure private firms operate legally and ethically.

Taxation. Through corporate tax and VAT, the government influences business behavior and raises funds for development.

Consumer protection laws. Government ensures that businesses do not exploit consumers through price controls, labeling, or safety standards.

Environmental laws. To prevent pollution and overexploitation, firms must comply with environmental assessments and sustainability guidelines.

3. (a) Examine five factors which determine population change.

Birth rate. A high number of births increases population, influenced by culture, religion, and access to family planning.

Death rate. Population declines when deaths exceed births, often due to disease, famine, or poor healthcare.

Migration. Immigration increases while emigration decreases population. People move for jobs, security, or better living standards.

Government policies. Policies encouraging or restricting family size, such as family planning programs, influence growth.

Natural disasters. Events like droughts or floods reduce population through death or displacement.

(b) Outline five main determinants which lead to high population density.

Fertile land. Areas with good soil and rainfall like Kilimanjaro attract farming communities, leading to dense populations.

Employment opportunities. Industrial or commercial towns attract migrants seeking jobs, increasing urban density.

Social amenities. Availability of schools, hospitals, and electricity draws people to settle in well-developed regions.

Security. Peaceful areas attract people, while conflict zones are often sparsely populated.

Cultural beliefs. Some communities value large families, leading to naturally higher densities over time.

4. (a) Describe four problems of compiling the price index.

Inaccurate data. If prices or quantities are not correctly recorded, the index gives false results.

Changing consumption patterns. People shift preferences over time, but indices often use fixed baskets of goods.

Regional price differences. Prices vary between rural and urban areas, yet most indices use average figures, distorting real cost of living.

Quality changes. Improvements or reductions in product quality may not be reflected in prices, misleading comparisons.

(b) Why is the rate of interest differing among different borrowers? (Give six points).

Credit history. Borrowers with good repayment records get lower interest rates than those with defaults or delays.

Loan size. Small loans often have higher interest due to administrative costs and higher risks.

Collateral. Secured loans have lower rates than unsecured ones, as lenders have less risk of loss.

Income level. High-income borrowers are considered low-risk, attracting lower interest.

Loan duration. Longer-term loans tend to have higher interest due to increased uncertainty.

Type of institution. Microfinance institutions charge more than commercial banks due to cost structures and clientele profiles.

5. (a) Explain six features of Oligopoly market structure.

Few dominant firms. A small number of large producers control most of the market share, like telecom companies.

Interdependence. Firms observe each other’s moves closely. If one cuts price, others may follow to retain customers.

Barriers to entry. High capital, brand loyalty, or government regulations limit new competitors from entering.

Product differentiation. Firms may sell slightly different products, like in detergent brands, or identical ones, like in cement.

Price rigidity. Prices remain stable due to fear of price wars. Firms prefer non-price competition like advertising.

Collusion. Firms may secretly or formally agree on prices or output to avoid competition, though this is often illegal.

(b) Analyse four strategies to be taken to avoid market failure.

Government intervention. Laws against monopolies and price fixing help maintain competition.

Subsidies and taxes. Encouraging merit goods like education with subsidies, or discouraging harmful goods like cigarettes through taxes.

Provision of public goods. Governments provide goods like roads or defense, which private firms avoid due to lack of profit.

Information regulation. Ensuring truthful advertising and transparency helps consumers make informed choices.

6. (a) What is trade cycle?

A trade cycle is a recurring pattern of expansion and contraction in economic activity over time. It includes periods of economic growth, peak, decline, and recovery, reflecting changes in output, employment, and demand.

(b) Explain four features of a trade cycle.

Repetition. Trade cycles occur regularly though not at fixed intervals, following the same stages.

Fluctuations. Output, employment, and prices rise and fall due to changes in investment and consumption.

Irregular length. Each phase varies in duration depending on external and internal factors.

Global impact. Trade cycles in one country can affect others through trade and finance links.

(c) Outline five factors which lead to the emergence of trade cycles.

Investment changes. Sudden rise or fall in business investment due to expectations or interest rates affects the entire economy.

Credit availability. Easy access to loans boosts growth; restricted credit reduces spending and investment.

Political instability. Uncertain environments discourage business and consumer spending.

Technological innovations. New technology can trigger booms; outdated systems lead to decline.

External shocks. Natural disasters, global recessions, or pandemics can interrupt normal growth and trigger trade cycles.

7. (a) With clear labelled diagram, distinguish between equilibrium price and equilibrium quantity.

Equilibrium price is the market price at which the quantity demanded equals quantity supplied.
Equilibrium quantity is the amount of goods exchanged at that price.
This occurs where the demand curve intersects the supply curve.

(b) Explain eight factors which determine the level of demand for any commodity.

Price of the commodity. A rise in price usually reduces quantity demanded, and vice versa.

Consumer income. Higher income increases demand for normal goods and reduces demand for inferior goods.

Tastes and preferences. Changing trends or advertising may increase or reduce demand.

Price of related goods. A rise in the price of a substitute increases demand for the good; a rise in the price of a complement reduces demand.

Population size. More people in an area increase demand for goods and services.

Expectations. If consumers expect prices to rise, they may buy more now, raising demand.

Seasonality. Demand for certain products like umbrellas or heaters depends on weather or seasons.

Government policy. Subsidies can increase demand, while taxes reduce it. For example, VAT exemption on school materials raises demand.

8. (a) Given:

$TC = 20q^2 + 4q + 2000$
$TR = 1000q + 8$

(i) Total variable cost
Total variable cost (TVC) is the part of the total cost that varies with output (q).
From the function:
$TVC = 20q^2 + 4q$

(ii) Total fixed cost
Fixed cost is the constant part of the total cost that doesn't change with output.
From the function:
$TFC = 2000$

(iii) Marginal cost function
Marginal cost (MC) is the derivative of total cost with respect to output (q):
$MC = d(TC)/dq = d(20q^2 + 4q + 2000)/dq$
$MC = 40q + 4$

(iv) Level of output which firm maximizes profit
To maximize profit, marginal cost (MC) must equal marginal revenue (MR).
First find MR:
$TR = 1000q + 8$
$MR = d(TR)/dq = 1000$

Now equate MR and MC:
$1000 = 40q + 4$
$996 = 40q$
$q = 996 / 40$
$q = 24.9$

So the firm maximizes profit when output is approximately 25 units.

(b) Explain six elements of monopolistic competition.

Many sellers. There are many firms competing in the market, each producing slightly differentiated products. No single firm has total control.

Product differentiation. Each firm offers a product that is slightly different from its competitors in terms of quality, packaging, branding, or customer service.

Free entry and exit. Firms can enter or leave the market easily, especially in the long run, which limits the ability to earn supernormal profits permanently.

Independent pricing. Each firm has some control over the price due to brand loyalty or perceived uniqueness, but not full control like a monopoly.

Non-price competition. Firms compete using advertising, product design, and promotional strategies instead of only changing prices.

Normal profit in the long run. Due to the entry of new firms attracted by short-run profits, in the long run firms earn only normal profits, as demand shifts until price equals average cost.