

**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: 2015**

**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.

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1. (a) Explain the following concepts as used in Economics:

(i) Conspicuous consumption

This refers to the act of buying expensive goods or services to publicly display wealth and status rather than to meet basic needs. For example, purchasing luxury cars or designer clothes not out of necessity but to show off affluence.

(ii) Central economic problem

This is the issue of how to allocate scarce resources among unlimited human wants. The core questions include what to produce, how to produce, and for whom to produce. For instance, should a country invest in defense or education?

(iii) Scale of preference

It is a list of wants arranged in order of priority. Individuals and governments use it to decide how to spend limited resources. For example, a student may prioritize buying textbooks over going to the cinema.

(iv) Specific economic laws

These are established relationships between economic variables, such as the Law of Demand which states that, all else equal, as price falls, quantity demanded increases.

(b) Distinguish micro economics from macro economics (provide six points).

Microeconomics studies individual units like households and firms, while macroeconomics deals with the economy as a whole.

Microeconomics focuses on supply and demand in specific markets, while macroeconomics studies national issues like GDP and inflation.

Microeconomics examines pricing and production in individual sectors, while macroeconomics looks at aggregate indicators.

Microeconomics is concerned with income distribution within a market, while macroeconomics focuses on overall income distribution.

Microeconomics helps in business decision-making, whereas macroeconomics aids in national policy formulation.

Microeconomics includes theories like marginal utility and price elasticity, while macroeconomics includes monetary and fiscal policies.

2. (a) Study carefully the following information of Kitwe Tea Farm and answer the questions that follow:

Labour (units): 1 2 3 4 5 6 7 8 9 10

Total Product: 30 70 120 180 250 320 390 430 450 460

Marginal Product: \_

(i) Fill in the blank spaces for Marginal Product:

MP at 1 = 30

MP at 2 = 70 - 30 = 40

MP at 3 = 120 - 70 = 50

MP at 4 = 180 - 120 = 60

MP at 5 = 250 - 180 = 70

MP at 6 = 320 - 250 = 70

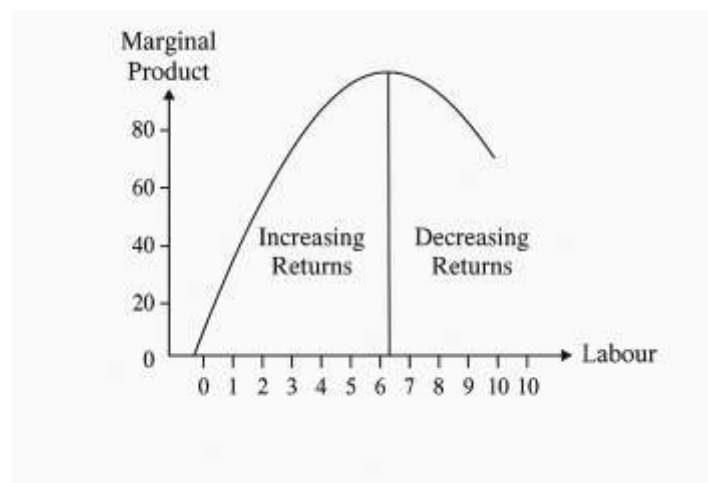
MP at 7 = 390 - 320 = 70

MP at 8 = 430 - 390 = 40

MP at 9 = 450 - 430 = 20

MP at 10 = 460 - 450 = 10

(ii) Draw a marginal product curve and show the areas where the farm experiences returns to scale.



(b) What are the main forms of intervention taken by the Tanzania government to control economic activities?

Price controls. The government sets maximum or minimum prices to protect consumers or producers. For example, setting maize prices to ensure food affordability.

Subsidies. The government supports producers with funds to reduce production costs, especially in agriculture and energy.

Taxation. Imposing or reducing taxes helps control inflation and redistribute income. For instance, VAT exemptions on essential goods.

Public enterprises. Government runs key sectors like electricity and water to provide affordable services where private firms may not operate efficiently.

Monetary and fiscal policies. Adjusting interest rates, spending, and taxation to influence economic growth, inflation, and employment.

Import restrictions. The government may ban or limit imports to protect local industries and ensure food security.

3. Describe five features of population census and five problems of carrying census in Tanzania.

Features:

It is conducted at regular intervals, often every 10 years.

It covers the entire population, aiming for complete enumeration.

It collects demographic data like age, sex, education, and occupation.

It is conducted under legal authority for accuracy and reliability.

It provides data for planning, budgeting, and policymaking.

Problems:

Poor infrastructure in rural areas makes reaching remote populations difficult.

Illiteracy or cultural barriers cause reluctance to provide correct information.

Shortage of skilled personnel to manage and supervise the census process.

Insufficient funding can affect quality and scope of data collection.

Security concerns or conflict in some regions may disrupt enumeration.

4. (a) Explain four types of price discrimination.

First-degree. The seller charges each customer the maximum they are willing to pay. Common in auctions or professional services.

Second-degree. Price varies based on quantity purchased or product version. For example, bulk discounts or premium service packages.

Third-degree. Different prices for different customer groups. For example, student or senior discounts in transport or cinemas.

Geographical. Charging different prices in different locations due to cost differences or market conditions. For example, same product priced higher in urban centers than rural areas.

(b) How can monopoly be controlled? (Give six points)

Government regulation. Setting maximum prices or controlling output to prevent exploitation of consumers.

Anti-trust laws. Breaking up monopolies or preventing mergers that reduce competition.

Encouraging competition. Promoting entry of new firms through reduced barriers and support for small businesses.

Public ownership. Government takes control of natural monopolies like water or electricity to ensure public interest.

Subsidizing substitutes. Encouraging alternatives to monopolized products to increase consumer choice.

Consumer protection laws. Ensuring transparency in pricing and product quality through monitoring and penalties.

5. (a) Use the demand function ( $P_1$ ) and the supply function ( $P_2$ ) given below to answer the questions that follow:

$$P_1 = 9\frac{1}{2} + Q/10$$

$$P_2 = -\frac{1}{2} + Q/20$$

(i) Equilibrium price and quantity

At equilibrium, demand equals supply:

$$P_1 = P_2$$

$$9.5 + Q/10 = -0.5 + Q/20$$

Multiply through by 20 to eliminate denominators:

$$20(9.5) + 2Q = 20(-0.5) + Q$$

$$190 + 2Q = -10 + Q$$

$$190 + 2Q - Q = -10$$

$$190 + Q = -10$$

$$Q = -200$$

(ii) Surplus and shortage when equilibrium price rises or falls by two

If price rises by 2 units above equilibrium, the quantity supplied increases while quantity demanded decreases, creating surplus.

If price falls by 2 units below equilibrium, demand increases while supply decreases, leading to shortage.

(b) Outline four factors affecting supply.

Cost of production. If input prices like fuel or wages rise, supply decreases since production becomes more expensive.

Technology. Advanced tools or automation increase efficiency and output, thus increasing supply.

Government policies. Subsidies increase supply by lowering production costs, while taxes reduce supply by raising costs.

Natural conditions. Weather and natural disasters affect agricultural supply. For example, drought reduces maize supply in rural Tanzania.

6. Analyse five advantages of unemployment and five problems of unemployment in less developed countries.

Advantages of unemployment:

Encourages self-employment. In countries like Tanzania, when formal jobs are limited, unemployment pushes people into entrepreneurial activities. For example, many unemployed youth start boda-boda businesses, mobile money kiosks, or street vending to survive. This expands the informal sector and creates micro-enterprises that serve communities.

Readily available labor force. A pool of unemployed people ensures that firms can hire quickly when opportunities arise. For instance, when the government or foreign investors establish construction projects, they can easily recruit labor from the unemployed population.

Encourages skills development. Many jobless individuals enroll in vocational training centers or technical institutions to improve their employability. For example, unemployed women in rural areas often join tailoring or baking workshops organized by NGOs.

Pushes labor migration. Unemployment encourages people to seek work in other regions or countries, helping reduce pressure on local job markets. Tanzanians have moved to South Africa or the Gulf to work in security or domestic service.

Discourages wage inflation. High unemployment reduces the bargaining power of workers. Firms can maintain lower wages, making production more affordable and competitive, especially in export industries like textiles or agriculture.

### Problems of unemployment:

**Poverty and hunger.** Without income, families cannot afford food, shelter, education, or medical care. In rural Tanzania, jobless youth often depend entirely on parents, worsening household poverty levels.

**Crime and insecurity.** Idle youth are more likely to engage in theft, drug dealing, or gang activities. Cities like Mwanza and Dar es Salaam have experienced spikes in crime linked to youth joblessness.

**Wastage of resources.** Human capital that is unemployed represents wasted investment in education and health. If graduates remain idle, their acquired skills degrade and become obsolete.

**Increased government burden.** The state must spend more on food aid, social programs, or security, while earning less tax revenue. This worsens fiscal deficits and reduces development capacity.

**Loss of national output.** When a large segment of the workforce is inactive, the country produces less than its potential. This weakens GDP growth and delays economic transformation.

### 7. (a) Explain four phases of trade cycle.

**Boom.** This is the peak of economic performance. Production, employment, wages, and consumer demand are high. Firms make supernormal profits and expand operations. In Tanzania, sectors like real estate and tourism have experienced boom phases driven by foreign investments.

**Recession.** Economic activity begins to slow down. Consumers reduce spending, inventories pile up, and firms cut back production. Unemployment rises. For instance, after global commodity prices fall, mining towns in Tanzania may enter recession due to reduced demand for labor.

**Depression.** The most severe phase. Widespread business failures, deep unemployment, falling incomes, and negative growth define this stage. A good historical example is the global Great Depression of the 1930s, though Tanzania hasn't faced full depression in recent times.

**Recovery.** Demand begins to pick up. Firms resume hiring, investment increases, and GDP begins to grow again. In Tanzania, recovery may follow after good harvest seasons, improved donor support, or successful policy reforms like debt forgiveness or infrastructure investment.

### (b) Account for six important features of trade cycles.

**Cyclical pattern.** Trade cycles follow a repeated sequence of boom, recession, depression, and recovery, although the length and intensity vary each time.

**Fluctuating employment.** During booms, jobs are created rapidly. In recessions and depressions, layoffs increase, and job opportunities shrink.

Irregular duration. There is no fixed period for each phase. A boom might last two years, while a recession may last six months or more depending on the causes and responses.

Business expectations. Optimism fuels expansion, while pessimism triggers contraction. If investors believe the market will grow, they spend more, leading to economic growth.

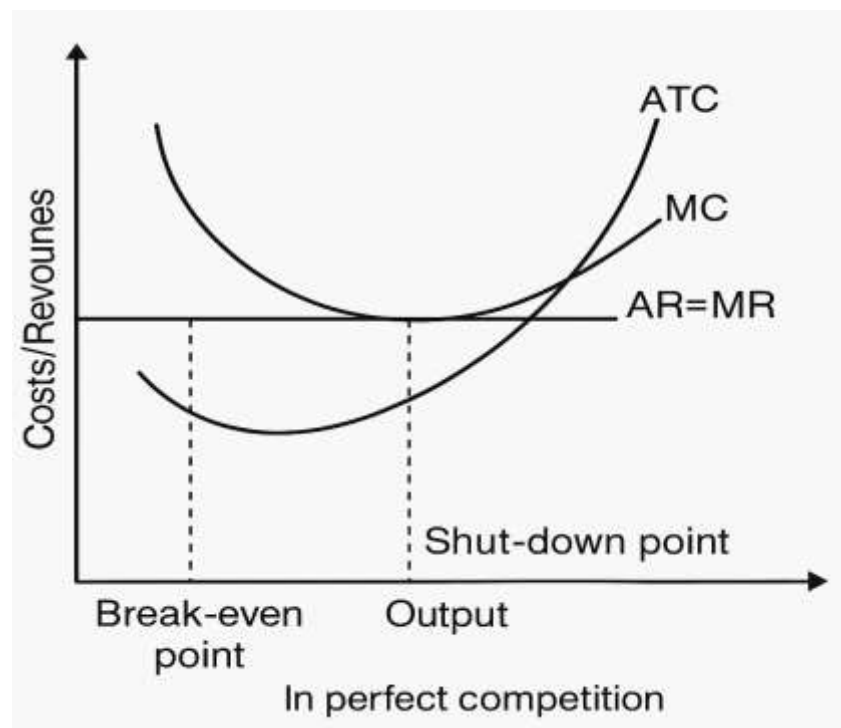
Impact on investment. Investment rises during boom due to high confidence and falls during downturns as profits drop and risk increases.

Policy intervention. Governments often respond to trade cycles using tools like fiscal stimulus or interest rate changes to stabilize the economy and shorten recessions.

8. (a) Using a well labeled diagram, distinguish between break-even point and shut-down point of a firm in perfect competition.

Break-even point is the level of output where total revenue equals total cost. The firm earns normal profit—enough to cover both fixed and variable costs but no excess profit. On a graph, this is where the average revenue (price) curve touches the average total cost (ATC) curve.

Shut-down point is the lowest point where the firm can still operate in the short run. It occurs when price equals average variable cost (AVC). If price falls below AVC, the firm cannot even cover operating expenses and should stop production.





(b) Examine seven factors which would influence the firm to go on production even when it makes losses.

Expectation of future profits. If the firm believes losses are temporary and the market will improve, it may continue production. For example, an agricultural firm may operate at a loss during drought, hoping for recovery in the rainy season.

Covering part of fixed costs. As long as the firm covers variable costs and some fixed costs, operating reduces losses compared to shutting down, where full fixed costs would still be incurred.

Maintaining customer base. By staying in the market, the firm retains loyal customers. A bakery that stops selling bread may lose customers permanently to competitors.

Avoiding retrenchment costs. Shutting down involves costs like severance pay, contract penalties, and asset write-offs. These can be more expensive than operating at a small loss.

Protecting brand reputation. Continued operation, even at a loss, shows reliability. Airlines or hospitals may keep running to protect their reputation and long-term business.

Utilizing idle capacity. Firms with unsold inventory or spare capacity may continue production to utilize these resources rather than letting them go to waste.

Strategic pricing. A firm might sell below cost temporarily to drive out competitors or build market share, expecting to raise prices later. This is common in industries like telecom and fast-moving consumer goods.