

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: 2016

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) Outline four salient features of a mixed economy. Can Tanzania be sighted as an example of a mixed economy country? Give reason for your answer.

Coexistence of public and private sectors. In a mixed economy, both government and private individuals participate in economic activities. For example, in Tanzania, the government runs sectors like water supply and public hospitals, while private firms operate in tourism, banking, and trade.

Price mechanism and planning coexist. While prices are determined by market forces in most sectors, the government also intervenes in key sectors such as energy and agriculture to stabilize prices or support producers.

Regulation and freedom coexist. The government enacts policies like minimum wage laws or environmental standards while allowing private ownership of land and capital.

Social welfare goals. The government provides public goods and services like free primary education and health care to promote equity, which the private sector may not provide affordably.

Yes, Tanzania can be considered a mixed economy because both private firms and public institutions play vital roles in production, distribution, and employment. Examples include TANESCO (state-owned electricity provider) and private banks like CRDB and NMB.

(b) Give five reasons of studying Economics.

It enables individuals to make informed decisions on how to allocate scarce resources like time, money, or land.

It helps understand and solve national problems such as inflation, unemployment, and poverty.

It is useful for planning and policymaking in government and business by predicting outcomes of economic activities.

It helps explain how markets work, such as supply and demand, and how prices are determined.

It improves financial literacy by teaching about budgeting, investment, production, and consumption.

2. (a) Distinguish time rate system from piece rate system.

Time rate system pays workers based on the time they spend working, regardless of the quantity produced. For example, a teacher earns a fixed monthly salary.

Piece rate system pays workers based on the number of units they produce. For instance, a bricklayer may be paid per 1,000 bricks made.

(b) Provide four advantages and four disadvantages of time rate system.

Advantages:

Ensures income stability for workers regardless of production level.
Suitable for tasks where output is difficult to measure (e.g., security).
Promotes quality over quantity.
Reduces pressure and health risks from overworking.

Disadvantages:

May reduce motivation to work harder or faster.
Encourages idleness if supervision is weak.
Does not reward high performers.
Increases labor cost without corresponding increase in output.

(c) Provide four advantages and four disadvantages of piece rate system.

Advantages:

Encourages high productivity since pay depends on output.
Reduces need for supervision.
Enables workers to earn more if they work harder.
Useful in production where output is measurable and repetitive.

Disadvantages:

May lead to poor quality as workers rush to increase quantity.
Increases health and safety risks due to overworking.
Demotivates slow or new workers.
May lead to uneven income and job dissatisfaction.

3. (a) Explain four benefits of using money in the economy.

Money eliminates the limitations of barter trade by serving as a medium of exchange. For example, instead of trading maize for clothes, farmers can sell maize for money and use it to buy what they need.

Money is a unit of account, making it easy to compare prices. A book costing 10,000 shillings and a pen costing 2,000 can easily be compared for value.

Money serves as a store of value, meaning people can save it for future use, unlike perishable goods like fish or milk.

Money is a standard of deferred payment, enabling credit transactions such as loans, hire purchase, or contracts.

(b) Describe six necessary criteria for good money.

Acceptability. People must trust and be willing to use it for transactions.

Durability. It must not wear out quickly. Notes and coins should last in circulation.

Portability. It should be easy to carry and transfer in daily use.

Divisibility. It must be capable of being divided into smaller units (e.g., 500, 200 shilling notes).

Stability of value. Its value should not fluctuate rapidly, which protects savings and investments.

Recognizability. People must easily identify and verify genuine money to avoid fraud.

4. (a) Which market structure is the firm producing?

The firm is likely operating under imperfect competition, possibly monopolistic competition. The total revenue increases, but not at a constant rate, and costs rise at a diminishing rate, suggesting the firm has some market power and differentiated products.

(b) What is its extra revenue?

Extra revenue (marginal revenue) is the additional revenue from selling one more unit.

MR from 1 to 2 units = $100 - 50 = 50$

MR from 2 to 3 = $150 - 100 = 50$

MR from 3 to 4 = $200 - 150 = 50$

MR from 4 to 5 = $250 - 200 = 50$

So, the extra revenue is consistently 50 T.shs per unit sold between these levels.

(c) What are its fixed costs and extra costs at all levels of output?

Fixed cost is the cost when output is zero = 110 T.shs

Extra cost (marginal cost) is the change in total cost when one more unit is produced.

From 0 to 1: $140 - 110 = 30$

From 1 to 2: $162 - 140 = 22$

From 2 to 3: $175 - 162 = 13$

From 3 to 4: $180 - 175 = 5$

From 4 to 5: $185 - 180 = 5$

From 5 to 6: $194 - 185 = 9$

From 6 to 7: $219 - 194 = 25$

From 7 to 8: $260 - 219 = 41$

From 8 to 9: $325 - 260 = 65$

(d) What is its profit?

Profit = Total Revenue – Total Cost

At 0: –110

At 1: $50 - 140 = -90$

At 2: $100 - 162 = -62$

At 3: $150 - 175 = -25$

At 4: $200 - 180 = 20$

At 5: $250 - 185 = 65$

At 6: $300 - 194 = 106$

At 7: $350 - 219 = 131$

At 8: $400 - 260 = 140$

At 9: $450 - 325 = 125$

Maximum profit is 140 T.shs at 8 units of output.

5. (a) Explain five forms of privatization.

Divestiture. This involves the government selling its shares in public enterprises either partially or fully to private individuals or institutions. For example, the government may sell 60% of shares in a state-owned telecom company to private investors.

Contracting out. The government retains ownership of a service but hires private firms to manage or operate it. For example, garbage collection in some Tanzanian cities may be contracted to private companies even though the municipality is responsible.

Management buy-outs. This is where the managers or employees of a state-owned enterprise purchase and take control of the business. It improves ownership commitment and efficiency since the workforce becomes the owner.

Franchising. The government allows private individuals to run public services under set conditions. For example, selling electricity recharge services through private agents authorized by TANESCO.

Public-private partnerships (PPPs). In this arrangement, the government partners with the private sector to finance, build, and operate projects. For instance, private firms may build roads or hospitals and be paid through user charges or government subsidies.

(b) Examine five successes of privatization policy in Tanzania.

Improved efficiency. Privatized firms like Vodacom and Airtel offer better telecom services compared to the old state-run institutions due to profit motivation and innovation.

Increased investment. Private investors have injected capital into various sectors, improving infrastructure and expanding services, especially in banking, agriculture, and energy.

Job creation. Although some jobs were lost during restructuring, many privatized companies have grown and employed more people in the long run.

Government revenue. The sale of public enterprises has raised money that can be used for development projects such as building schools, roads, and health centers.

Technology transfer. Foreign private investors brought in advanced machinery and systems, which helped improve productivity and customer service in several sectors.

6. (a) Describe five factors, other than price, which affect the supply of a commodity to change.

Cost of production. If input prices like wages or raw materials rise, supply may fall since production becomes more expensive. For example, if fertilizer costs increase, farmers may plant less.

Technology. Improved technology increases productivity and supply. For instance, use of tractors instead of hand hoes allows farmers to cultivate larger areas.

Government policy. Taxes reduce supply as they raise costs, while subsidies increase supply by lowering production expenses.

Weather conditions. Agricultural products are highly sensitive to weather. Good rainfall increases crop supply, while drought reduces it drastically.

Number of producers. More suppliers in the market mean greater overall supply. For example, if more entrepreneurs join poultry farming, the supply of eggs increases.

(b) Analyse five importance of the concept of price elasticity of demand in the economy.

Taxation policy. The government taxes inelastic goods like fuel or cigarettes to raise revenue, since their demand won't drop significantly despite higher prices.

Pricing decisions. Firms consider elasticity to set prices. If demand is elastic, lowering prices can lead to higher total revenue through increased sales.

Subsidy allocation. In elastic goods such as education or farming inputs, subsidies can greatly increase demand, making them effective tools for policy objectives.

Foreign trade. Elasticity affects how export and import prices impact revenue. For example, if Tanzanian coffee has elastic demand, price changes affect foreign earnings.

Control of inflation. Knowing elasticity helps predict how price changes influence overall demand and can guide monetary policies to control inflation or stimulate growth.

7. (a) Examine five functions of a market.

Price determination. The market brings together buyers and sellers, and prices are set based on demand and supply interaction.

Resource allocation. Resources flow to where they are most demanded or where they fetch better prices, improving efficiency.

Information sharing. Markets signal consumers and producers about availability, prices, and preferences. For example, rising maize prices signal shortage and attract more suppliers.

Encourages innovation. Competition in markets forces firms to improve their products and services to attract customers.

Facilitates exchange. Markets provide a platform for goods and services to be exchanged, reducing the need for barter and promoting specialization.

(b) Examine five factors that influence the extent of the market.

Infrastructure. Good roads, transport, and communication widen markets by connecting producers to distant buyers.

Technology. Internet access and e-commerce platforms allow sellers to reach wider markets beyond their localities.

Population size. A larger population provides a bigger customer base and increases market potential.

Income levels. High-income earners have more purchasing power, expanding demand and enlarging the market.

Government policy. Trade policies such as export promotion, low tariffs, and reduced regulation attract more participants and expand markets.

8. (a) Account for the economic advantages of the increase in the population of a particular country. (Give five points)

Larger labor force. A growing population increases the number of workers available for industries, agriculture, and services, which supports economic expansion.

Increased market size. A high population boosts domestic demand for goods and services, encouraging investment and production.

Encourages innovation. Competition and large consumer bases push firms to innovate in order to serve better and attract customers.

Utilization of resources. A big population can lead to better exploitation of natural resources such as minerals, forests, or land, especially when guided by government planning.

Improves savings. If properly employed, a large population contributes more in taxes and savings, which finance investments and national development.

(b) Discuss five problems of high birth rates to a developing economy country like Tanzania.

Strain on social services. High birth rates increase the need for schools, hospitals, and housing, stretching already limited public resources.

Youth unemployment. With more young people entering the job market, jobs become scarce, increasing joblessness and poverty.

Food insecurity. More mouths to feed increases pressure on food production, leading to malnutrition and higher food prices.

Environmental degradation. Expanding populations lead to deforestation, water shortages, and land degradation due to farming and settlement expansion.

Low savings and investments. Families with many children spend most of their income on consumption, reducing savings and limiting national capital formation.