

**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: 2017**

**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) Briefly explain the following concepts:

(i) Economic goods

These are goods that are scarce and have an opportunity cost. They are produced using limited resources and are not freely available in nature. For example, clothes, food, and smartphones are economic goods because they must be manufactured and purchased.

(ii) A transformation curve

Also known as the production possibility frontier (PPF), it shows the maximum possible combinations of two goods that an economy can produce when all resources are fully and efficiently used. For instance, a country can produce either more food or more military weapons, but not both in unlimited quantities.

(iii) Wants

Wants are human desires for goods and services that are not essential for survival but improve living standards. For example, a person may want a car or a holiday even though these are not basic needs like food or water.

(iv) Marginal utility

This is the additional satisfaction gained from consuming one more unit of a good or service. For example, eating one slice of pizza gives high satisfaction, but the second or third slice gives progressively less utility.

(b) Distinguish a command economy from a free market economy (provide six points).

In a command economy, the government controls all major economic decisions, including production and pricing, while in a free market, decisions are made by private individuals based on demand and supply.

Resources in a command economy are owned collectively or by the state, whereas in a free market economy, resources are privately owned.

A command economy uses central planning, such as five-year plans, but in a free market, resource allocation is done through the price mechanism.

In a command economy, consumer choice is limited as the government decides what to produce. In a free market, consumers have a wide range of choices.

Prices in a command economy are often fixed by the government, but in a free market, they are determined by market forces.

Innovation is usually slow in command economies due to lack of competition, while free market economies encourage innovation through competition and profit incentives.

2. (a) Assess the significance of competitive market in the economy. (Give five points)

Promotes efficiency. Firms in competitive markets must operate efficiently to survive, minimizing waste and using resources effectively.

Leads to lower prices. Competition forces businesses to lower prices to attract customers, making goods and services affordable.

Encourages innovation. To stand out, firms must constantly improve products or introduce new ones, enhancing quality and variety.

Ensures better customer service. Businesses strive to satisfy customers in order to maintain loyalty and reputation.

Allocates resources effectively. Resources are directed to industries where they are most demanded, improving overall economic productivity.

(b) Identify five roles played by price in a free market situation.

Price acts as a signal. When prices rise, producers are encouraged to produce more, and when they fall, consumers are encouraged to buy more.

Price serves as a rationing tool. During shortages, higher prices reduce demand, helping allocate goods to those willing to pay.

Price determines resource allocation. It directs land, labor, and capital to more profitable uses.

Price serves as an incentive. High prices motivate producers to increase output and new firms to enter the market.

Price balances demand and supply. At equilibrium, the amount of goods producers want to sell equals the amount consumers want to buy.

3. (a) Define minimum wage legislation.

Minimum wage legislation is a law set by the government that establishes the lowest hourly, daily, or monthly wage that employers can legally pay workers. It is aimed at protecting workers from exploitation and ensuring a basic standard of living.

(b) Giving five points, describe the advantages of minimum wage legislation.

Protects low-income workers. It ensures workers earn a minimum income that allows them to meet basic needs such as food, shelter, and education.

Reduces poverty. By increasing the earnings of the poorest, minimum wages help uplift people from poverty and reduce dependency on aid.

Encourages work. With a guaranteed income floor, people are more likely to seek jobs, reducing idleness and boosting productivity.

Promotes equality. It reduces income gaps between skilled and unskilled workers and promotes social stability.

Boosts consumption. When workers earn more, they spend more, stimulating demand and supporting local businesses.

(c) Explain four disadvantages of raising the wages above the equilibrium wage rate.

Leads to unemployment. If minimum wages are higher than what firms can afford, they may lay off workers, especially in labor-intensive sectors like agriculture or manufacturing.

Increases production costs. Firms paying higher wages may pass the cost to consumers through higher prices, leading to inflation.

Discourages hiring of inexperienced workers. Employers may avoid hiring fresh graduates or unskilled labor due to higher wage obligations.

Encourages automation. To reduce wage costs, firms may invest in machines, reducing job opportunities for low-skilled workers.

4. (a) Outline five limitations of the theory of price mechanism.

It assumes perfect competition. In reality, monopolies and oligopolies exist, limiting the effectiveness of price in allocating resources.

Ignores externalities. Price does not account for environmental or social costs, such as pollution caused by factories.

Leads to inequality. The system rewards those with capital and disadvantages the poor, increasing income gaps.

Fails to provide public goods. Items like street lighting or defense are underproduced because they don't generate profit directly.

Prone to instability. Prices can fluctuate rapidly due to speculation or panic, leading to economic uncertainty and loss.

(b) With the aid of diagrams, explain the following cases of elasticity:

(i) Inelastic supply.

The supply curve is steep. Quantity supplied changes little when price changes. For example, land supply in cities is inelastic because land is fixed.

(ii) Elastic supply.

The supply curve is flatter. A small price change causes a large change in quantity supplied. For instance, manufactured goods can be produced quickly in response to price rises.

(iii) Unitary elasticity of supply.

Percentage change in price equals percentage change in quantity supplied. The supply curve passes through the origin and shows proportional responsiveness.

(iv) Perfectly elastic supply.

Supply curve is horizontal. Suppliers are willing to supply any quantity at a fixed price. If price changes slightly, supply drops to zero or becomes infinite.

(v) Perfectly inelastic supply.

Supply curve is vertical. Quantity supplied does not change regardless of price changes. A good example is the supply of antiques or rare paintings.

5. (a) Describe five measures that a country can adopt to control recession in trade cycle.

Increase government spending. The government can spend more on infrastructure projects such as roads, schools, and hospitals to stimulate demand and create employment. For example, road expansion in rural Tanzania can employ thousands and raise consumption levels.

Reduce interest rates. The central bank can lower interest rates to make borrowing cheaper. Businesses and consumers will borrow more to invest or spend, increasing economic activity and reversing the recession.

Cut taxes. Reducing income tax gives consumers more disposable income, encouraging spending. Lower corporate taxes help firms retain profits for reinvestment.

Subsidize production. Giving subsidies on fuel, fertilizer, or electricity reduces production costs. This keeps businesses afloat and encourages continued supply of goods and services during downturns.

Support key industries. The government can bail out struggling sectors like tourism, manufacturing, or agriculture with soft loans or stimulus packages to prevent mass layoffs and collapse.

(b) Explain five factors for upswing and downswing of the level of economic activities.

Technological change. New technologies can stimulate economic growth, for example, digital finance platforms like M-Pesa improving financial access. Conversely, outdated technology limits production efficiency.

Consumer confidence. When people expect the economy to improve, they spend more, triggering an upswing. In contrast, fear of job loss or inflation can reduce spending, leading to a downturn.

Investment levels. Increased investments in factories, roads, or education create jobs and increase incomes. Reduced investment slows down growth and causes contraction.

Availability of credit. If banks offer more loans at lower rates, businesses and households increase spending. Tight credit conditions, on the other hand, reduce investment and demand.

External trade. Growth in exports boosts production and incomes, leading to an upswing. A decline in global demand or trade restrictions can reduce export earnings, causing a downswing.

6. A firm is operating under the conditions of imperfect competitive industry.

$$TC = 2Q + 5$$

$$AR = 8 - Q$$

Q = Quantity

AR = Average Revenue

(a) Compute the level of output at which the firm is producing if it is incurring a loss of 77 Tshs.

$$TR = AR \times Q = (8 - Q)Q = 8Q - Q^2$$

$$TC = 2Q + 5$$

$$\text{Loss} = TC - TR = 77$$

$$\text{So, } (2Q + 5) - (8Q - Q^2) = 77$$

$$2Q + 5 - 8Q + Q^2 = 77$$

$$Q^2 - 6Q + 5 = 77$$

$$Q^2 - 6Q - 72 = 0$$

$$(Q - 12)(Q + 6) = 0$$

$$Q = 12 \text{ or } Q = -6 \text{ (ignore negative)}$$

So,  $Q = 12$  units.

(b) Give six reasons that may have caused this firm to incur losses.

High production costs. Rising prices of raw materials or fuel can increase costs beyond revenue. For instance, if electricity tariffs rise sharply, small industries suffer losses.

Low demand. If consumers switch to substitutes or reduce spending, the firm's sales drop. For example, local shoe producers may lose buyers to imported second-hand shoes.

Poor pricing strategy. If the firm sets prices too low due to weak market research, it may not cover costs, leading to consistent losses.

Overproduction. Producing more than demand causes inventory buildup and wastage, especially for perishable goods.

Inefficiency. Poor management, outdated equipment, or unskilled workers reduce productivity and inflate costs.

Economic downturn. Recession reduces overall demand and affects all sectors. Firms may suffer losses due to low turnover despite efficient operations.

7. (a) Outline any six ways through which the population size of a country can be a hindrance to the economic development.

Pressure on social services. High population leads to overcrowded schools, clinics, and water supply, reducing quality and reach of services.

Unemployment. There are more job seekers than available jobs. For example, thousands of graduates in Tanzania remain jobless annually due to saturated markets.

Environmental degradation. Overuse of land for farming, charcoal burning, and housing leads to deforestation, soil erosion, and reduced agricultural yields.

Housing shortages. Urban centers like Dar es Salaam face slums and poor housing due to fast-growing populations.

Low savings. Families with many dependents have little money left to save or invest, which slows capital formation.

Food insecurity. High population requires more food. If agriculture does not match population growth, hunger and malnutrition become common.

(b) Explain four measures which can be adopted to control a higher population growth rate.

Promote family planning. Through public education and free access to contraceptives, couples can control the number and spacing of children.

Educate the girl child. Girls who stay in school longer tend to delay marriage and childbirth, contributing to lower fertility rates.

Improve healthcare. Reducing infant and child mortality gives families confidence that fewer children will survive, encouraging smaller families.

Economic empowerment of women. Giving women access to employment and income reduces dependency on early marriage and childbearing.

8. (a) Evaluate five factors that influence the level of money supply in Tanzania.

Central bank policy. The Bank of Tanzania controls money supply by adjusting interest rates and reserve requirements. Low interest rates increase loans and expand money supply.

Government borrowing. When the government borrows from the central bank or commercial banks, more money enters circulation, increasing the supply.

Foreign exchange reserves. If the country receives more foreign aid or exports rise, the central bank accumulates reserves and injects local currency into the economy.

Public demand for loans. High demand for loans by individuals and businesses increases credit creation and money supply.

Monetary instruments. The use of open market operations (buying or selling government securities) directly influences liquidity in the economy.

(b) Critically examine the quantity theory of money (provide four points).

It states that  $MV = PQ$ , meaning money supply times velocity equals price level times output.

It assumes velocity of money and output are constant in the short run, so changes in money supply directly affect price levels.

It ignores the role of interest rates and demand for money, making it too simplistic for modern economies where people may hold money for other reasons.

It fails during recessions. For example, increasing money supply in a depressed economy may not increase prices or output if consumers don't spend.