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: 2018**

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) Give the meaning of the following terms as used in Economics:

(i) Economic laws
These are general principles or theories that describe patterns of economic behavior under certain conditions. For example, the Law of Demand states that as price increases, quantity demanded falls, holding other factors constant.

(ii) Technological efficiency
It refers to the ability of a firm to produce the maximum output with a given set of inputs using the best available technology. For example, using machines to produce 100 units in one hour instead of 50 is more technologically efficient.

(iii) Productivity
Productivity measures output per unit of input, such as labor or capital. For instance, labor productivity is output per worker per hour and indicates how efficiently resources are used.

(b) Explain seven roles of capital in the economy.

Capital facilitates production by providing tools and machinery. For example, tractors in agriculture increase farming efficiency.

It enhances labor productivity by complementing human effort. A worker with a machine produces more than one without.

Capital accumulation leads to economic growth by expanding the capacity to produce goods and services.

It supports innovation by funding research and development in new technologies.

Capital investment creates employment opportunities through the establishment of industries and infrastructure.

It improves living standards by increasing the availability of goods and services.

Capital generates income in the form of interest, profit, and rent, contributing to national income.

2. (a) (i) Calculate the cross elasticity of demand for products Y and G.

Cross elasticity = % change in quantity of Y / % change in price of X
$QY1 = 5$, $QY2 = 10 \rightarrow \%\Delta QY = (10 – 5) / 5 \times 100 = 100\%$
$PX1 = 50$, $PX2 = 75 \rightarrow \%\Delta PX = (75 – 50) / 50 \times 100 = 50\%$
Cross elasticity = 100 / 50 = 2 (positive)

(ii) By giving reasons, name the commodities Y and G.

Product Y is a substitute good for X because the cross elasticity is positive. As the price of X increases, demand for Y increases.
Product G is a complementary good to X because its quantity bought remains constant or might decrease if full data were available (assuming it would follow a negative elasticity if complete data were given).

(b) Explain five practical applications of the concept of elasticity of demand.

Helps in taxation policy: Governments impose higher taxes on inelastic goods like fuel since quantity demanded doesn't fall drastically, ensuring stable revenue.

Pricing decisions: Firms use elasticity to set prices. If demand is elastic, they may lower prices to increase revenue.

Determines subsidy allocation: Governments provide subsidies to goods with elastic demand like education to increase affordability and usage.

Helps predict the effect of price changes on total revenue. Inelastic goods lead to higher total revenue when prices rise.

Assists in analyzing market behavior and formulating economic policies to control inflation or stimulate consumption.

3. (a) Briefly explain, how does population pressure increases in an area in Tanzania? (four points)

High birth rates due to limited family planning increase population pressure.

Rural-urban migration causes overcrowding in towns and cities like Dar es Salaam.

Inadequate education on population control leads to high fertility rates.

Improved healthcare reduces death rates, leading to population growth without a corresponding rise in resources.

(b) "Population census in a country is socially and economically desirable." Justify this statement by providing six points.

Provides accurate data for planning public services like schools, hospitals, and roads.

Helps allocate government resources fairly based on population size.

Aids in determining electoral boundaries and political representation.

Enables tracking of demographic trends like age structure and migration.

Supports private sector decisions on investment and marketing based on population data.

Assists in evaluating the impact of development policies and improving living standards.

4. (a) With illustrations, show the type of a profit earned by a firm operating in monopolistic competition in:

(i) Short run
In the short run, the firm earns supernormal profit. The AR curve is above the AC curve at the equilibrium output, and the profit is the area between them. The firm faces a downward sloping demand curve due to product differentiation.

(ii) Long run
In the long run, entry of new firms erodes supernormal profits. The firm earns only normal profit as the AR curve becomes tangent to the AC curve at the equilibrium point.

(b) Giving five points, explain the internal economies of scale which occur to an individual firm as it grows in size.

Technical economies: Large firms can afford advanced machinery that increases output and reduces cost per unit.

Managerial economies: Specialized managers improve efficiency in finance, marketing, and production.

Marketing economies: Bulk buying and advertising lower per unit marketing cost.

Financial economies: Large firms can borrow at lower interest rates due to higher creditworthiness.

Risk-bearing economies: Diversification in production or markets spreads risks and stabilizes revenue.

Understood.

5. (a) Describe four policies that can be used to achieve economic stability.

Monetary policy. This involves the central bank controlling the supply of money and interest rates. For instance, if inflation is rising in Tanzania, the Bank of Tanzania may increase the interest rate to reduce borrowing. This discourages excessive spending and cools down the economy. On the other hand, if the country is facing a recession, the central bank may lower interest rates to stimulate borrowing and investment.

Fiscal policy. The government uses public spending and taxation to influence the economy. During economic downturns, the government can increase expenditure on projects like road construction, school building, or rural electrification to create employment. Reducing taxes also increases the disposable income of citizens, stimulating consumption and production.

Exchange rate policy. The government or central bank manages the value of the national currency in relation to others. If the Tanzanian shilling is devalued, Tanzanian exports become cheaper to foreigners, boosting export demand and helping stabilize the trade balance. However, care must be taken as devaluation can also raise import prices.

Income policy. This refers to government efforts to regulate wages and prices. For example, controlling the prices of basic goods like maize flour and petrol helps manage the cost of living. Regulating public sector wages prevents wage-price spirals that can worsen inflation.

(b) Discuss the problems associated with instability of the growth of an economy.

High unemployment. When the economy is unstable, businesses cut costs by reducing their workforce. For instance, a textile factory in Morogoro may lay off workers during a period of low demand, leading to job losses and rising poverty.

Reduced investor confidence. Investors, both local and foreign, avoid putting money into an economy that shows unpredictable growth. If inflation swings wildly or if government policy changes frequently, investors hold back, slowing capital inflow and technological advancement.

Inflation. During booms, demand may exceed supply, causing price increases. For example, rapid growth in urban areas like Dar es Salaam may lead to higher prices for land, housing, and food, hurting low-income earners.

Balance of payments deficits. If economic growth depends heavily on imports for industrial materials or food, instability leads to more imports than exports, causing trade deficits and weakening the shilling.

Reduced savings and consumption. People hesitate to spend or save during uncertain times. For example, a farmer may avoid investing in new equipment fearing drought or market collapse, reducing productivity.

Government budget strain. During downturns, the government earns less tax but must increase spending on health, education, and subsidies, worsening budget deficits and forcing borrowing or currency devaluation.

6. (a) Describe five secondary roles of money in promotion of economic activities.

Medium of deferred payment. Money allows buyers and sellers to enter credit agreements. For example, a farmer can buy fertilizer in January and pay after the harvest in May, thanks to the ability to defer payment using currency.

Store of value. Money can be saved and used in the future. A teacher in Dodoma can keep part of their salary in a bank account for emergencies or future purchases, like paying school fees.

Basis of credit. Financial institutions use money to provide loans. A boda boda rider may borrow 1 million shillings to buy a motorbike and repay gradually from daily earnings.

Unit of account. Money measures the value of goods and services. For example, maize, clothes, and electronics are all priced in Tanzanian shillings, making comparison and accounting easier.

Facilitates tax collection and planning. Governments collect taxes in money, enabling national budget preparation and the financing of public services like roads, hospitals, and police.

(b) Examine five key issues to consider for a successful devaluation.

Elasticity of demand for exports and imports. If Tanzanian goods are price elastic, devaluation boosts exports. For example, if Kenyan buyers increase demand for Tanzanian coffee when its price drops, export earnings rise.

Inflation control. Devaluation makes imports more expensive, which can fuel inflation. If the price of imported fuel rises, it affects transport costs and consumer goods. So inflation control must accompany devaluation.

Domestic production capacity. If local industries cannot meet demand for goods previously imported, shortages or inflation may result. Devaluation must be matched with strong local production.

Public awareness and confidence. People must understand and trust the policy. If not, they may panic, hoard goods or rush to exchange money, worsening the situation.

Policy coordination. Devaluation must be supported by sound fiscal and monetary policy. If the government overspends or prints money, the gains from devaluation may be neutralized by inflation and deficits.

7. Assess the usefulness of privatization to the economic development of the country by providing nine points.

It increases efficiency. Private companies aim to make profit and therefore cut unnecessary costs, invest in better technology, and improve service delivery. For example, after privatization, telecom companies like Vodacom improved coverage and services compared to former public providers.

Reduces government burden. Selling loss-making state enterprises saves government money that was previously used to support them. These resources can be redirected to health, education, and infrastructure.

Attracts foreign investment. Foreign firms often participate in privatization. When South African or Indian companies invest in Tanzanian mining or manufacturing, they bring capital, technology, and skills.

Promotes competition. Privatization often ends state monopolies. When multiple firms offer electricity or bus transport, consumers benefit from better service and lower prices.

Improves quality of goods and services. Private companies compete based on customer satisfaction, leading to faster service, cleaner environments, and reliable delivery.

Generates government revenue. Selling state-owned firms brings in large sums of money. For instance, selling shares in the Tanzania Electric Supply Company (TANESCO) would raise funds for national development.

Stimulates job creation. Although some jobs may be lost during restructuring, new investment and expansion often create more diverse employment opportunities in the long run.

Encourages innovation. Private firms invest in research, marketing, and new products. Banks, telecoms, and retail businesses continuously upgrade systems to stay ahead of competitors.

Supports economic diversification. Privatization brings growth in sectors like tourism, ICT, agribusiness, and manufacturing, making the economy less dependent on agriculture or public service.

8. (a) Describe five types of employment existing in Tanzania.

Formal employment. This includes salaried jobs with written contracts, pensions, and regulated working conditions. Examples include teachers, nurses, engineers, and civil servants.

Informal employment. These are jobs without formal agreements, often based on daily earnings or self-employment. Examples include market vendors, carpenters, food sellers, and domestic workers.

Seasonal employment. This is work available only during specific times of the year. For instance, many people in Morogoro get jobs during the sugarcane harvest but remain unemployed after the season.

Casual employment. These are short-term jobs with irregular hours. Construction workers or waiters hired for events are examples of casual workers who are paid per task or day.

Self-employment. Individuals run their own businesses, such as tailoring, hairdressing, or owning a retail kiosk. These jobs offer independence but also carry business risks.

(b) Analyse the five problems of unemployment.

Widespread poverty. Without income from a job, individuals struggle to meet basic needs like food, shelter, and clothing, especially in rural areas like Singida or Dodoma.

Increased dependency ratio. Employed individuals support many dependents, reducing their savings and making it harder to escape poverty.

Social problems. Unemployment leads to crime, drug abuse, and frustration. Idle youth in urban areas often turn to petty theft or gang activities to survive.

Low economic growth. When many people are unemployed, the country produces below its potential. Fewer workers means lower output and weaker GDP.

Government burden. The state spends more on social programs like food aid or youth training schemes, while collecting less income tax from the jobless population. This worsens fiscal deficits and debt.