**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: 2021**

**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. Briefly describe five characteristics of capital.

Capital is man-made, meaning it does not occur naturally. Tools, machines, and buildings used in production are created through human effort, unlike land or sunlight.

It is durable and can be used repeatedly in production. For instance, a tractor used on a farm can serve for several years across multiple farming seasons.

Capital is passive in production. It needs to be activated by labor. For example, a sewing machine cannot function without a tailor to operate it.

It is elastic in supply, meaning it can be increased through savings and investment. If people save more, banks can lend more to businesses for capital formation.

It earns interest as a reward for its use. For example, when someone lends money or equipment for production, they receive interest or rental income in return.

2. Briefly explain five negative impacts of unemployment in the economic development of the country.

Unemployment reduces income levels, leading to lower purchasing power. When many people are jobless, consumption falls, slowing down economic growth.

It increases poverty and dependency. For instance, unemployed youth often rely on their parents or the government for support, increasing the welfare burden.

Government revenue falls due to low tax collections, while expenditure on social services such as food programs and healthcare rises, straining the national budget.

Unemployment leads to underutilization of human resources. Skilled workers remain idle, and the country fails to benefit from their potential productivity.

It contributes to social unrest and crime. Frustrated jobless youths may resort to theft, substance abuse, or political violence, threatening peace and development.

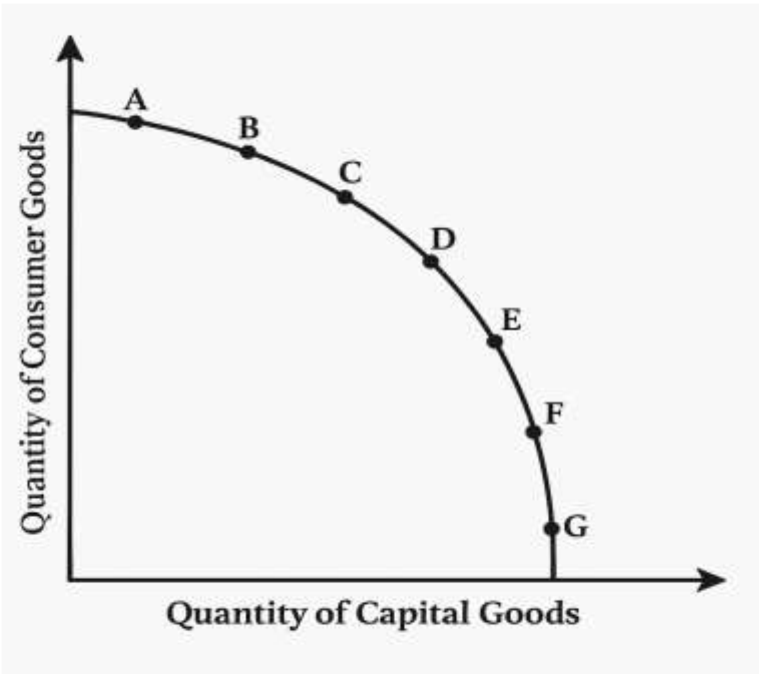
3. (a) Fill in the table by calculating the sacrifice of consumer goods for capital goods.

To find the sacrifice, subtract the consumer goods of the current row from the previous row.

| Production Possibilities | Quantity of Capital Goods | Quantity of Consumer Goods | Sacrifice of Consumer Goods |
|---|---|---|---|
| A | 0 | 14 | - |
| B | 1 | 12 | 2 |

| | | | |
|---|---|---|---|
| C | 2 | 10 | 2 |
| D | 3 | 8 | 2 |
| E | 4 | 6 | 2 |
| F | 5 | 4 | 2 |
| G | 6 | 2 | 2 |

(b) Construct the Production Possibility Frontier curve.




(c) What does Production Possibility Frontier illustrate? Give five points.

It shows the maximum output combinations of two goods that an economy can produce using all resources efficiently.

It demonstrates the concept of opportunity cost—moving along the curve shows how producing more of one good requires sacrificing some of the other.

It identifies productive efficiency, where any point on the curve represents full utilization of available resources.

It shows economic growth when the curve shifts outward due to improved technology or increased resources.

It reveals underutilization when production occurs inside the curve, indicating unemployment or inefficiency.

(d) Distinguish consumer goods from capital goods.

Consumer goods are final products used directly by individuals to satisfy needs, such as food, clothes, or TVs.

Capital goods are used in the production of other goods and services, such as machines, tools, and equipment.

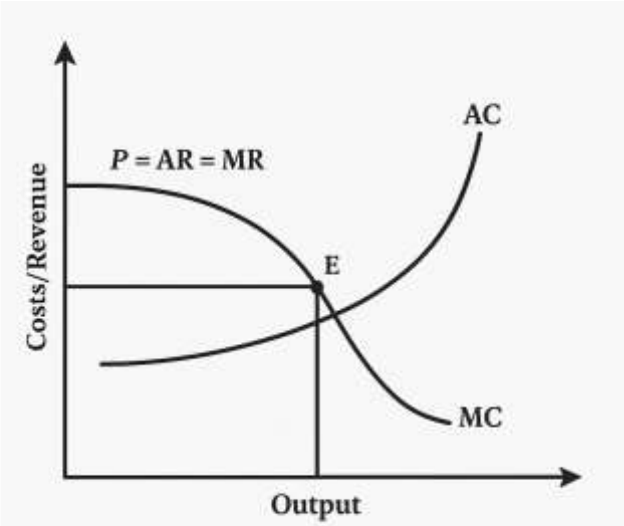
Consumer goods provide immediate satisfaction, while capital goods contribute to future production and economic growth.

4. (a) Use the profit function to derive the profit maximization level of output.

Profit = Total Revenue – Total Cost
To maximize profit, set Marginal Revenue (MR) = Marginal Cost (MC). Solve for the output level where MR = MC using the specific cost and revenue functions provided.

(b) With the aid of diagrams, illustrate the equilibrium of the firm under perfect competition in the short run.

The diagram should show:
- A horizontal demand curve (price = MR = AR)
- U-shaped average cost (AC) and marginal cost (MC) curves
- The equilibrium is where MC = MR, and the price is equal to or above AC.
- If P > AC, the firm earns supernormal profit. If P = AC, normal profit is earned.



Equilibrium under Perfect Competition

5. (a) (i) Calculate cross elasticity of demand.

% Change in quantity of Y = (200 – 100) / 100 × 100 = 100%

% Change in price of X = (800 – 400) / 400 × 100 = 100%
Cross Elasticity = % change in Q of Y / % change in P of X = 100% / 100% = 1

(ii) Interpret your answer in (i).

A cross elasticity of 1 means commodity Y is a close substitute to X. As the price of X increases, demand for Y increases proportionately, indicating consumers shift between them easily.

(b) Briefly analyze five factors of elasticity of supply.

Availability of resources affects supply elasticity. For example, agricultural products are less elastic due to reliance on land and weather.

Time period matters. In the short run, supply is inelastic as production can't easily adjust, but in the long run, firms can increase output, making supply more elastic.

Flexibility of production influences supply. If firms can switch production between goods (e.g., from shirts to jackets), supply is more elastic.

Storage capacity plays a role. Goods that can be stored easily, like grains, have more elastic supply as they can be released when prices rise.

Mobility of factors of production improves elasticity. For example, if labor and capital can be easily shifted between sectors, supply can respond quickly to price changes.

6. "Most of the developing countries experience frequent constant rise in general price level of goods in their economies." Basing on this quotation, examine six factors that lead to demand pull inflation.

Increased government spending without a corresponding rise in production increases demand, pushing prices up.

Rapid population growth raises demand for basic goods like food and housing, causing price hikes.

Excessive monetary expansion through printing money increases consumer purchasing power, fueling inflation.

Improved income levels from salary increments increase consumption demand, especially if supply remains unchanged.

Export growth reduces local supply as more goods are shipped abroad, creating scarcity and increasing domestic prices.

Increased consumer borrowing due to easy access to credit boosts demand for cars, electronics, and housing, leading to inflation.

7. Explain six strategies to be adopted to move the population size of Tanzania towards the optimal level.

Promote family planning through education and distribution of contraceptives to control birth rates.

Increase female education and employment, which leads to delayed marriages and fewer children per family.

Create awareness on the economic effects of overpopulation through media and community outreach programs.

Provide incentives for smaller families, such as tax benefits or scholarships for children in low-birth households.

Improve healthcare to reduce infant mortality rates, as families will feel less need to have many children.

Strengthen rural development programs to reduce migration and pressure on urban centers, helping balance population distribution.

8. Most of the privatized companies in Tanzania have shown degrees of improved efficiency and higher profitability. Analyze six challenges that Tanzania has faced in the process of privatization.

Lack of transparency in the sale of public enterprises led to accusations of corruption and undervaluation of assets.

Mass job losses occurred as private investors cut labor to improve efficiency, increasing unemployment and social unrest.

Essential services became unaffordable as private firms raised prices to maximize profits, excluding poor communities.

Foreign ownership of strategic sectors reduced national control and local reinvestment, limiting domestic benefits.

Inadequate regulatory frameworks failed to monitor privatized firms, leading to exploitation and reduced service quality.

Resistance from workers, unions, and the public delayed or undermined implementation due to fears of inequality and marginalization.