THE UNITED REPUBLIC OF TANZANIA

NATIONAL EXAMINATIONS COUNCIL OF TANZANIA

ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

151/2 **ECONOMICS 2**

ECONOMIC DEVELOPMENT

(For Both School and Private Candidates)

Time : 2 Hours 30 Minutes **ANSWERS** **Thursday 06 May 2004 a.m**

Instructions

1. This paper consists of sections A and B.
2. Answer **five (5)** questions, choosing at least **two (2)** questions from each section.
3. All questions carry equal weight.
4. Communication devices and any unauthorised materials are **not** allowed in the examination room.
5. Write your **Examination Number** on every page of your answer booklet(s).

1. Below is the population data for Mainland Tanzania, reference time August 20–21, 2000.

Age Group (Years)	Number of People
0 – 14	16997459
15 – 59	16563787
60 and above	3989672

(a) **Calculate the dependency ratio.**

Dependency ratio = (Population aged 0–14 + Population aged 60 and above) ÷ Population aged 15–59 × 100

= (16,997,459 + 3,989,672) ÷ 16,563,787 × 100

= 20,987,131 ÷ 16,563,787 × 100

= 126.7% (approximately 127%).

(b) **Give the economic implication of the ratio obtained.**

A dependency ratio of 127% means that for every 100 working-age people, there are about 127 dependents. This implies a heavy economic burden on the productive population, as fewer workers must support a larger number of children and elderly people. It also reduces savings and investment potential, since most income is consumed in maintaining dependents. High dependency further limits capital accumulation and slows economic development.

(c) **Why is reference time given?**

A reference time is given to ensure accuracy and comparability of demographic statistics. Population figures change over time due to births, deaths, and migration, so a fixed reference date allows data users to know exactly when the information was collected. This avoids confusion and enables comparisons with other surveys or censuses conducted at different times.

2. How can you differentiate economic growth from economic development?

Economic growth refers to an increase in the output of goods and services, usually measured by Gross Domestic Product (GDP). It focuses on quantitative changes such as higher production, increased income, and greater consumption.

Economic development, on the other hand, is broader and includes both growth and improvements in living standards. It encompasses qualitative changes such as better healthcare, education, reduced poverty, improved infrastructure, and equitable income distribution.

Growth is necessary but not sufficient for development. A country can experience growth without development if the benefits are not widely shared. Development ensures that growth is accompanied by social progress and improved welfare.

3. Explain how the multiplier process and the acceleration principle may cause unemployment.

The multiplier process can cause unemployment during economic downturns. When an initial fall in investment or government spending occurs, it reduces income and consumption, which further reduces demand for goods. Firms then cut production and lay off workers, creating a cycle of rising unemployment.

The acceleration principle also contributes. Firms base investment on expected demand growth. If demand slows down or falls, firms reduce investment sharply to avoid overcapacity. This cut in investment leads to fewer jobs in capital goods industries, spreading unemployment across the economy.

4. To increase or decrease money supply is the prerogative of the Central Bank. How?

The Central Bank controls money supply through open market operations. By selling securities, it reduces money supply; by buying, it increases liquidity in the economy.

It also uses the cash reserve ratio. By raising the proportion of deposits that commercial banks must hold, lending is restricted, reducing money supply. Lowering the ratio has the opposite effect.

The Central Bank also adjusts the discount rate. Increasing interest rates discourages borrowing and lowers money supply, while reducing rates encourages credit creation.

Foreign exchange control and credit guidelines are additional tools. By regulating foreign currency and bank lending, the Central Bank directly influences the amount of money circulating in the economy.

5. Why may Tanzania be classified as a dependent economy?

Tanzania is classified as a dependent economy because it relies heavily on export of primary commodities such as coffee, cotton, and minerals. These products are subject to volatile world prices, making the economy vulnerable to external shocks.

It depends on imports for manufactured goods, technology, and capital equipment, reflecting weak industrial development. This dependence drains foreign exchange earnings.

The country relies on foreign aid and external loans to finance its budget and development projects. This creates debt dependency and external influence on economic policies.

Foreign direct investment also plays a major role in key sectors like mining, meaning economic control is partly external. Dependence reduces self-sufficiency and exposes the economy to external decisions.

6. Outline the main functions of the Co-operative and Rural Development Bank (CRDB).

One function of CRDB is to provide financial services to farmers and co-operative societies. It offers loans, savings, and credit facilities to support agricultural activities and rural development.

It mobilizes savings from rural communities. By encouraging deposits, CRDB helps to accumulate capital that can be reinvested into productive sectors.

The bank also supports small and medium enterprises (SMEs). Through accessible financing, it helps entrepreneurs in rural areas expand businesses and create employment.

It provides financial advice and training. CRDB assists farmers and rural entrepreneurs in managing funds, budgeting, and using modern financial tools.

Finally, CRDB plays a role in reducing poverty. By supporting rural economic activities, it helps improve incomes and living standards in less developed areas.

7. Discuss briefly the constraints to economic development planning in Tanzania.

One major constraint is inadequate financial resources. Tanzania relies on limited domestic savings and external aid, which restricts the implementation of development plans.

Another challenge is over-dependence on agriculture, which is vulnerable to climate change, pests, and fluctuating world market prices. This undermines consistent development.

Weak infrastructure in transport, energy, and communication makes it difficult to support large-scale investment and industrialization.

Rapid population growth also strains resources. Much of government spending goes to providing basic needs rather than investing in long-term development.

Lastly, corruption and poor governance weaken implementation of plans. Resources are often mismanaged, and projects fail to achieve intended results.

8. Co-operatives in Tanzania have an upward task in the marketing and distribution of their products. Explain.

Co-operatives face difficulties because of poor infrastructure. Bad roads and limited storage facilities make it costly and inefficient to transport and preserve products.

They also suffer from limited access to markets. Many co-operatives operate in rural areas, where connections to larger urban or international markets are weak.

Inadequate capital is another challenge. Without enough financing, co-operatives cannot invest in modern equipment or expand distribution networks.

Mismanagement and corruption within some co-operatives reduce efficiency and weaken member confidence. This limits their ability to compete effectively.

Additionally, stiff competition from private traders undermines co-operatives. Since traders may offer quicker payments and flexible terms, farmers often bypass co-operatives, weakening their role in marketing.

9. How can currency devaluation improve the balance of payments?

Currency devaluation makes exports cheaper in foreign markets. This increases demand for the country's goods abroad, boosting export earnings.

It also makes imports more expensive. As a result, domestic consumers and firms reduce reliance on foreign goods and switch to locally produced alternatives, lowering import expenditure.

Devaluation can encourage tourism by making the country cheaper for foreign visitors, thereby increasing foreign exchange inflows.

It may also attract foreign investment, since devalued currency reduces production costs for international companies operating in the country.

Overall, by increasing exports and reducing imports, devaluation helps to correct balance of payments deficits.

10. Why is economic integration a bitter pill to some countries?

Economic integration can be difficult for weaker economies because they risk being dominated by stronger partners. Industries in less developed countries may collapse when exposed to competition from more advanced economies.

It can reduce policy independence. Member countries must follow regional rules, even if they conflict with domestic priorities, limiting economic sovereignty.

Revenue loss is another issue. When tariffs are removed, countries that depended heavily on customs duties may face reduced government income.

Unequal benefits create tension. Some countries gain more from integration than others, leading to dissatisfaction and possible withdrawal from agreements.

Finally, political differences and lack of trust among member states can make integration seem burdensome rather than beneficial, especially when perceived as favoring certain countries.