

THE UNITED REPUBLIC OF TANZANIA
NATIONAL EXAMINATIONS COUNCIL
ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION
151/2 ECONOMICS 2

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2011

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) Describe the consequences of high birth rates to the economy.

- Pressure on social services: High demand for education, health, and housing strains government resources.
- Increased dependency ratio: A large young population reduces savings and productive investment.
- Unemployment: Rapid labor force growth outpaces job creation, worsening joblessness.
- Resource depletion: More mouths to feed intensify the use of land, water, and forests unsustainably.
- Slowed development: Resources meant for economic growth are diverted to basic survival needs.

(b) Explain the importance of the concept of optimum population to Tanzania.

- Maximizes output: Optimum population ensures labor matches available resources and capital.
- Avoids under/overpopulation: Balances population growth with job opportunities and services.
- Efficient resource use: Prevents overuse or underuse of natural and man-made resources.
- Guides planning: Helps policymakers set targets for health, education, and infrastructure.
- Attracts investment: A stable, productive population encourages domestic and foreign investment.

2. (a) State the meaning and types of natural unemployment.

Natural unemployment is the level of unemployment that exists even when the economy is at full employment. It arises due to normal market conditions.

Types:

- Frictional unemployment: Short-term job transitions or people entering the labor force.
- Structural unemployment: Mismatch between workers' skills and available jobs.
- Seasonal unemployment: Occurs in industries affected by seasonal demand (e.g., tourism, farming).

(b) What policies can be used to reduce natural unemployment in Tanzania?

- Skill development programs: Tailor training to match industry demands.
- Job placement centers: Link job seekers to employers efficiently.
- Support for SMEs: Encourages entrepreneurship and job creation.
- Labour mobility support: Assist workers to relocate to areas with more jobs.
- Promote sectors with seasonal flexibility: Like agro-processing and construction in off-seasons.

3. Enumerate five (5) advantages and five (5) disadvantages of a progressive tax system.

Advantages:

- Reduces income inequality: Higher earners pay a larger share, supporting redistribution.
- Generates revenue: Ensures the government collects more from those who can afford.
- Adjusts to ability to pay: It is fairer as it considers income levels.
- Stabilizes the economy: Reduces excessive consumption during booms.
- Funds social services: Enables investment in health, education, and welfare.

Disadvantages:

- Discourages productivity: High taxes on income may demotivate hard work.
- Tax evasion: Wealthy individuals may find ways to underreport income.
- Complex to administer: Requires detailed income reporting and enforcement.
- May affect investment: High rates can deter entrepreneurship.
- Bracket creep: Inflation may push earners into higher brackets unfairly.

4. (a) Define GNPmp and GNPfc.

- GNPmp (Gross National Product at market price): Total value of goods and services produced by nationals including net income from abroad, valued at current market prices.
- GNPfc (Gross National Product at factor cost): GNP valued based on the cost of production (excluding indirect taxes and subsidies).

(b)

Given:

GNPmp = 700,000

Net income from abroad = 100,000

Depreciation = 300,000

Net indirect taxes = 200,000

- (i) $\text{GNPfc} = \text{GNPmp} - \text{Net indirect taxes} = 700,000 - 200,000 = 500,000$
- (ii) $\text{GDPfc} = \text{GNPfc} - \text{Net income from abroad} = 500,000 - 100,000 = 400,000$
- (iii) $\text{NNP} = \text{GNPfc} - \text{Depreciation} = 500,000 - 300,000 = 200,000$

5. State five (5) problems associated with formulation of development plans in less developed countries.

- Lack of accurate data: Hinders effective forecasting and decision-making.
- Inadequate skilled personnel: Few experts to design, implement, or monitor plans.
- Political interference: Plans may be altered to suit short-term political goals.
- External dependency: Donor conditions may conflict with national priorities.
- Resource limitations: Funding and infrastructure gaps slow implementation.

6. Explain the various forms of economic integration.

A free trade area is a form of economic integration where member countries agree to eliminate tariffs and other trade restrictions among themselves. However, each country retains its own external trade policy toward non-members.

A customs union builds upon a free trade area by not only eliminating internal trade barriers but also adopting a common external tariff. This means all member states impose the same duties on imports from outside the union.

A common market allows for the free movement of goods, services, capital, and labor among member countries. It integrates both product and factor markets by removing all barriers to mobility across borders.

An economic union combines the features of a common market with the harmonization of economic policies. Member states may adopt a common currency and coordinate fiscal and monetary policies to function as a single economy.

A political union is the most advanced form of economic integration. It involves unifying member states under a central political authority that governs economic, social, and political matters for all members.

7. “Co-operatives are playing important role in the development and marketing of agricultural products in Tanzania.” Discuss.

Co-operatives help farmers market their produce collectively, which improves their bargaining power and ensures better prices than if they sold individually.

They offer access to affordable inputs such as fertilizers, improved seeds, and equipment by buying in bulk and distributing to members at reduced costs.

Co-operatives provide credit facilities and financial services, especially to smallholder farmers who are often excluded from commercial banks due to lack of collateral.

They facilitate the sharing of knowledge and farming skills through training and extension services, which increases productivity and quality of produce.

Co-operatives help build and manage rural infrastructure like storage units, transport vehicles, and processing facilities, which reduce post-harvest losses and increase profits.

They promote savings and investment among members by pooling resources and reinvesting in community development projects, thereby strengthening local economies.

8. Describe the problems that are faced by commercial banks in Tanzania today.

Commercial banks in Tanzania face high levels of non-performing loans due to customers defaulting on payments, especially in agriculture and small-scale business sectors.

Many rural areas remain unbanked because banks are concentrated in urban centers, limiting access to financial services for the majority rural population.

Banks are burdened by strict regulatory compliance costs, which increase operational expenses and reduce efficiency, especially for smaller financial institutions.

Competition from microfinance institutions and mobile money platforms has eroded the market share of traditional banks and challenged their business models.

The public's lack of trust in banks due to past cases of fraud, poor customer service, and bank collapses discourages people from using formal banking systems.

Technological challenges and limited digital infrastructure in some regions hinder the provision of modern banking services such as online banking and ATM networks.

9. (a) Critically describe the law of comparative advantage.

The law of comparative advantage states that a country should specialize in producing goods in which it has the lowest opportunity cost compared to others. This enables countries to trade efficiently and benefit mutually.

It allows even countries with absolute disadvantages in production to engage in international trade, as long as they are relatively more efficient in producing at least one good.

The law encourages specialization and efficient allocation of global resources, resulting in higher total output and economic welfare for trading partners.

By focusing on industries where they are most efficient, countries can achieve economies of scale and reduce costs in production.

Comparative advantage forms the foundation of modern trade theory and supports liberalization policies that promote openness and export growth.

(b) What tools can be used to restrict the flow of imports in a country?

Tariffs are commonly used to make imported goods more expensive than domestic alternatives, protecting local industries from foreign competition.

Import quotas limit the quantity of certain goods that can be brought into the country, ensuring that domestic producers maintain a larger market share.

Licensing systems restrict imports by allowing only approved individuals or firms to bring in specific products under government control.

Non-tariff barriers such as quality standards, packaging requirements, and safety regulations indirectly block imports that do not meet domestic criteria.

Exchange controls limit the availability of foreign currency, making it harder for importers to pay for goods from abroad, thus reducing import levels.

Government subsidies to local producers make their goods cheaper and more competitive than imported alternatives, reducing the reliance on foreign products.

10. Discuss the advantages of diversification of agriculture in the economy.

Diversification reduces dependency on a single crop, which protects farmers and the economy from price volatility and crop failure due to disease or drought.

It ensures year-round income for farmers by spreading risk across various crops and livestock that mature at different times, improving livelihoods.

Agricultural diversification enhances food security by increasing the variety of food products available for domestic consumption.

It promotes soil health and reduces environmental degradation by rotating crops, which prevents nutrient depletion and pest accumulation.

Diversification stimulates the growth of agro-industries by providing raw materials for processing, creating jobs and expanding the economy.

It encourages innovation and the adoption of new farming techniques, making agriculture more resilient and responsive to changing market and climate conditions.

Diversified agriculture expands export potential by producing a wider range of commodities for international markets, increasing foreign exchange earnings.

It strengthens rural economies by opening multiple income streams, which reduces poverty and improves living standards in farming communities.