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: 2015**

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) Explain six strategies that can be used to improve agricultural sector in Tanzania.

- Expand irrigation systems: Reduce reliance on rain by constructing irrigation schemes for year-round farming.
- Provide affordable inputs: Subsidize seeds, fertilizers, and equipment to boost productivity.
- Strengthen extension services: Deploy trained officers to educate farmers on modern farming practices.
- Improve rural infrastructure: Build roads, storage facilities, and market centers to reduce post-harvest losses.
- Enhance access to credit: Establish agriculture-focused banks or cooperative finance schemes to help farmers invest.
- Encourage agro-processing industries: Add value to produce and increase farmer earnings by linking agriculture to industry.

(b) Four reasons to justify the statement that business ownership should be left to the public:

- Private sector is more efficient: Less bureaucracy and faster decision-making.
- Encourages competition: Drives innovation, better pricing, and quality services.
- Reduces public burden: Government avoids mismanagement and financial losses from unprofitable state firms.
- Increases investment: Entrepreneurs bring capital, skills, and energy to grow the economy.

2. (a) Four economic significance of controlling negative externalities.

- Promotes sustainable development: Ensures resource use does not harm future generations.
- Protects public health: Reduces pollution-related diseases and healthcare costs.
- Encourages innovation: Firms adopt cleaner technologies and production processes.
- Reduces social costs: Less environmental damage leads to lower cleanup and restoration expenses.

(b) Six ways negative externalities can be controlled:

- Environmental taxes: Polluters pay for their emissions, encouraging cleaner practices.
- Regulation: Government sets pollution limits or bans harmful practices.
- Permits and quotas: Caps on total emissions with tradable allowances.
- Subsidies for clean tech: Incentivizes firms to adopt environmentally friendly processes.
- Public education: Raises awareness on pollution prevention.
- Zoning laws: Keeps polluting industries away from residential or sensitive areas.

3. (a) Five reasons why economic planning is necessary in Tanzania.

- Optimal resource allocation: Directs scarce resources to priority sectors.
- Reduces poverty: Planning targets poverty through job creation and basic services.
- Ensures balanced development: Promotes equity between regions and population groups.
- Attracts investment: Clear plans give confidence to investors and donors.

- Manages macroeconomic stability: Controls inflation, debt, and growth through coordinated actions.

(b) Five problems facing Economic Planning in Tanzania:

- Inadequate data: Poor statistical systems hinder accurate forecasting.
- Political interference: Plans may be altered to suit political agendas.
- Corruption: Misuse of resources derails implementation.
- Donor dependency: External conditions may conflict with local priorities.
- Limited resources: Funding and technical expertise may fall short of plan requirements.

4. (a)
Given Disposable income = 20,000; Saving = 1,500
Consumption = 20,000 - 1,500 = 18,500

(i) APC = Consumption / Income = 18,500 / 20,000 = 0.925
(ii) APS = Saving / Income = 1,500 / 20,000 = 0.075

(b) If disposable income = 10,000 and consumption = 12,000
APC = 12,000 / 10,000 = 1.2 → This indicates dissaving, meaning the person is spending more than their income, perhaps using savings or borrowing.

(c) Six leakages of multiplier:

- Savings: Income not spent reduces multiplier effect.
- Taxes: Government collections reduce disposable income.
- Imports: Spending on foreign goods takes money out of the local economy.
- Capital outflow: Investment abroad reduces domestic circulation.
- Hoarding: Keeping money idle outside banks lowers its impact.
- Debt repayment: Money used to pay debts is not used for current spending.

5. (a) Seven mechanisms to reduce government expenditures:

- Privatization of state enterprises
- Cutting unnecessary public employment
- Limiting travel and official perks
- Merging overlapping ministries/agencies
- Promoting e-governance to reduce admin costs
- Encouraging PPP (Public-Private Partnerships)
- Controlling corruption and leakages

(b) Three roles of Public Finance:

- Resource allocation: Funds education, health, defense, and infrastructure.

- Redistribution of income: Tax and welfare systems reduce inequality.
- Economic stabilization: Through budgeting, borrowing, and expenditure to manage inflation and unemployment.

6. (a) Describe five factors affecting Terms of Trade.

- Commodity prices: An increase in export prices relative to imports improves a country's terms of trade.
- Exchange rates: A strong currency makes imports cheaper and exports less competitive, affecting the trade ratio.
- Import dependency: Heavy reliance on imported goods may worsen terms of trade due to price shocks.
- Productivity and technology: Improved productivity can lower export prices or increase competitiveness.
- Global demand and supply: Fluctuations in international markets, like oil or minerals, can influence prices and trade terms.

(b) Evaluate five gains from International Trade to a country.

- Access to wider markets: Firms can sell beyond domestic borders, boosting income and profits.
- Technology transfer: Countries can import advanced machinery and production techniques.
- Employment creation: Trade-intensive sectors like export industries create direct and indirect jobs.
- Revenue generation: Tariffs and export earnings contribute to government income.
- Economic growth: Trade increases production, attracts investment, and expands GDP.

7. (a) Elaborate six problems facing Financial Institutions in Tanzania.

- Low capital base: Many institutions lack adequate reserves to meet credit demand or absorb shocks.
- High non-performing loans: Borrowers often default, especially in agriculture and SMEs.
- Limited rural penetration: Many financial services are concentrated in urban areas, leaving rural areas unbanked.
- Technological limitations: Poor digital infrastructure hinders efficiency and customer experience.
- Regulatory challenges: Compliance with changing policies or global standards is often difficult.
- Lack of trust: Historical fraud and mismanagement reduce public confidence in the financial system.

(b) Outline four contributions of the Bank of Tanzania (B.O.T) to the country's economic development.

- Monetary stability: Controls inflation and ensures stable interest rates through monetary policy.
- Currency issuance: Supplies and secures the Tanzanian shilling, maintaining trust in the currency.
- Supervision of financial institutions: Ensures soundness and safety in the banking system.
- Promotes investment: By creating a stable macroeconomic environment, it attracts both domestic and foreign investors.

8. (a) Examine five factors which hinder development.

- Poor infrastructure: Inadequate roads, electricity, and communication limit productivity.
- Corruption: Misuse of public funds undermines service delivery and deters investors.
- Low education levels: A poorly skilled labor force reduces efficiency and innovation.
- Political instability: Unrest discourages economic activity and long-term planning.
- Overdependence on agriculture: Reliance on rain-fed, low-value crops slows industrial diversification.

(b) Why Tanzania has been classified as a country with dependent economy? Provide five reasons.

- Reliance on foreign aid: A significant part of the budget and projects are donor-funded.
- Import dependency: Essential goods like fuel, machinery, and pharmaceuticals are imported.
- Limited value addition: Exports are mostly raw materials, lacking industrial processing.
- External debt: Tanzania borrows from international institutions for development.
- Foreign investment dominance: Key sectors like mining are owned or controlled by foreign entities.

9. (a) Analyse seven strategies that can be adopted to widen the market size in East African Community.

- Infrastructure development: Improve regional transport, electricity, and ports for smooth trade.
- Harmonize standards: Align product quality and certification to remove technical barriers.
- Remove non-tariff barriers: Streamline customs and documentation processes across borders.
- Promote regional value chains: Encourage interdependence in production among EAC states.
- Joint marketing efforts: Present EAC as a single investment destination to global markets.
- Strengthen trade facilitation agencies: Modernize border posts and digitalize trade services.
- Encourage cross-border investments: Provide incentives for businesses to operate in multiple EAC countries.

(b) Examine four challenges that the new East African Cooperation faces.

- Political differences: Varying national interests and leadership ideologies hinder unity.
- Trade imbalances: Larger economies dominate trade, causing tensions among smaller members.
- Infrastructure disparities: Poor connectivity in some countries restricts integration.
- Language and legal diversity: Differences in official languages and laws complicate harmonization.

10. (a) Distinguish Transportation from Communication.

- Transportation involves the physical movement of people or goods from one place to another.
- Communication is the exchange of information between individuals or groups without physical movement.

(b) Explain eight problems facing Transport and Communication in Tanzania.

- Poor road conditions: Many rural areas are inaccessible, especially during rains.
- Limited railway network: Aging infrastructure and slow speeds make it less competitive.
- High transport costs: Fuel prices and poor maintenance raise transport expenses.

- Inadequate ports and airports: Capacity constraints delay trade and tourism.
- Low internet penetration: Many areas lack access to reliable internet.
- Power instability: Affects telecommunication networks and signal reliability.
- Outdated postal services: Slow and unreliable postal systems limit formal communication.
- Limited investment: Low public and private funding in modern transport and telecom systems.