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: 2016**

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) Define national income.
National income is the total monetary value of all goods and services produced by a country's factors of production within a specific period, usually one year. It reflects the economic activity and income earned by citizens both domestically and abroad.

(b) Describe five determinants of the size of national income.
- Quantity and quality of labor: A skilled and healthy labor force increases productivity and output.
- Natural resources: Abundant and well-utilized natural resources contribute significantly to production.
- Capital availability: The presence of tools, machinery, and infrastructure boosts production capabilities.
- Level of technology: Technological advancement enhances efficiency and output volume.
- Political and economic stability: A peaceful environment encourages investment and economic activities.

(c) Explain four uses of the national income statistics.
- Policy formulation: Guides government decisions on budgeting, taxation, and spending.
- Economic planning: Helps determine growth targets and allocate resources efficiently.
- International comparison: Used to compare economic performance across countries.
- Measuring development: GDP per capita is a key indicator of living standards and development.

2. (a) What is VAT?
Value Added Tax (VAT) is a consumption tax levied at each stage of production or distribution of goods and services based on the value added at that stage.

(b) Explain four advantages and six disadvantages of VAT.

Advantages:
- Broad tax base: Covers a wide range of goods and services, generating stable revenue.
- Encourages saving: Taxes consumption, not income, promoting savings.
- Transparent system: Invoices show tax clearly, reducing evasion.
- Neutrality: VAT is uniform across industries, causing minimal distortion.

Disadvantages:
- Regressive nature: Affects the poor more, as they spend a higher portion of their income.
- Administrative cost: Requires strong recordkeeping and enforcement.
- Burden on small businesses: Complex filing can overwhelm informal traders.
- Evasion risk: Tax fraud through false invoicing and underreporting is common.
- May increase prices: Businesses often pass the tax burden to consumers.
- Not suitable for unorganized sectors: Difficult to enforce in cash-based economies.

(c) "Tax incidence does not always fall on the consumer." Substantiate with four points.

- Market structure: In competitive markets, producers may absorb tax to retain customers.
- Price elasticity of demand: If demand is elastic, consumers will switch to alternatives, forcing producers to bear the tax.

- Government regulation: Price controls may prevent tax pass-through to consumers.
- Nature of product: Essential goods may face political resistance to price hikes, making producers absorb the tax burden.

3. (a) Define:
(i) Externalities: Costs or benefits of a transaction that affect third parties not involved in the activity.
(ii) Transboundary externality: External effects (usually environmental) that cross national borders, like air pollution affecting neighboring countries.

(b) Explain eight methods which can be used to control environmental pollution.

- Imposing pollution taxes: Penalizing polluters financially encourages cleaner production.
- Enforcing regulations: Setting legal pollution limits for industries and vehicles.
- Emission permits: Limiting total emissions and allowing trading of permits.
- Promoting clean technology: Subsidies and tax incentives for eco-friendly methods.
- Public awareness campaigns: Educating people on pollution effects and eco-practices.
- Waste management systems: Encouraging recycling, safe disposal, and reuse.
- Industrial zoning: Placing polluting industries away from residential areas.
- International cooperation: Joint treaties and efforts to control transboundary pollution.

4. (a) "Tanzanian foreign exchange system is the liberalized foreign exchange regime." Justify by giving five points.

- Market-based exchange rate: Currency value is determined by demand and supply in the forex market.
- No exchange controls: Individuals and firms can freely buy and sell foreign currency.
- Open capital flows: Tanzanians can invest or borrow internationally.
- Foreign investors repatriate profits freely: Encourages FDI inflow.
- Competition among forex dealers: Banks and bureaus compete, improving rates and service.

(b) Describe the roles played by the following types of financial institutions:

(i) Central bank: Issues currency, regulates banks, manages monetary policy, and acts as lender of last resort.
(ii) Commercial banks: Accept deposits, give loans, and facilitate payments and investments.
(iii) Specialized banks: Focus on sectors like agriculture, housing, or industry to meet targeted development goals.
(iv) Saving banks: Encourage small-scale saving and provide basic banking to low-income earners.
(v) Cooperative banks: Serve cooperative societies by providing credit and deposit services to farmers and traders.

5. "Private Crop Buyers play a significant role in the Tanzanian economy." Critically discuss this contention showing five advantages and five disadvantages of Private Crop Buyers.

Advantages:

- Quick payment: Farmers get instant cash, avoiding delays by government agencies.
- Competitive pricing: Buyers compete for produce, improving farm gate prices.
- Market expansion: They link farmers to wider regional and international markets.
- Reduces post-harvest losses: They purchase immediately after harvest, reducing spoilage.
- Encourages productivity: With ready markets, farmers are motivated to increase output.

Disadvantages:
- Price exploitation: In absence of regulation, buyers may underpay farmers.
- Middlemen dominance: Multiple layers reduce the final price received by farmers.
- Quality compromise: Some buyers don't enforce standards, reducing export competitiveness.
- Informal operations: Lack of contracts leads to mistrust and disputes.
- Weak farmer bargaining power: Smallholders often sell individually, lacking negotiation strength.

6. (a) "Prices of agricultural products fluctuate more than the prices of the manufactured goods." Give six arguments to support the statement.

- Weather dependence: Agricultural output varies with rainfall, droughts, or floods, making supply unstable and causing price swings.
- Biological factors: Pests, diseases, and seasonal cycles affect yield and availability.
- Inelastic demand: A small increase in supply may cause sharp price drops, while shortages can lead to sudden spikes.
- Perishability: Most farm products can't be stored long, forcing farmers to sell quickly, even at low prices.
- Market structure: Few buyers dominate rural markets, manipulating prices to their advantage.
- Poor infrastructure: Delays in transport, storage, and market access lead to oversupply in some areas and shortages in others, raising volatility.

(b) Provide four measures which can be taken to arrest the situation.

- Establish price stabilization funds: Government can intervene during extreme price changes to protect farmers and consumers.
- Improve storage and warehousing: Enables farmers to store produce and wait for favorable prices.
- Develop agro-processing industries: Value addition reduces perishability and dependence on raw sales.
- Diversify markets: Expanding domestic and export markets reduces reliance on a single buyer or season.

7. (a) Examine five problems facing the new East African Community.

- Trade barriers: Despite integration, non-tariff barriers (e.g., customs delays, bans) persist among members.
- Infrastructure gap: Poor roads, railways, and ports hamper the free flow of goods and people.
- Unequal development: Economic imbalance causes mistrust, with stronger members perceived as dominating.
- Political instability: Conflicts, elections, and weak governance in some states disrupt policy consistency.
- Overlapping memberships: Many countries belong to multiple blocs (e.g., COMESA), creating conflicting obligations.

(b) Devise any five tentative measures which are likely to solve the problems.

- Harmonize policies: Standardizing customs, tax, and investment regulations for smoother integration.
- Invest in regional infrastructure: Joint financing of roads, railways, and energy grids.
- Establish compensation funds: To support weaker economies affected by competition.
- Promote political dialogue: Regular meetings and conflict-resolution mechanisms to maintain unity.
- Create awareness campaigns: Educating citizens and businesses about EAC benefits to foster public support.

8. (a) Briefly explain what economic development is.
Economic development is the sustained improvement in living standards, income, education, health, and infrastructure within a country. It involves both quantitative growth and qualitative improvements in the well-being of people.

(b) Assess four determinants of economic growth.

- Investment in capital goods: Machinery, factories, and roads increase production capacity.
- Human capital: Skilled and healthy labor boosts productivity and innovation.
- Technological progress: New inventions and better methods improve efficiency.
- Political and economic stability: Peace and good governance attract investors and support long-term growth.

(c) Evaluate five indicators of a developing country.

- Low per capita income: Reflects widespread poverty and limited purchasing power.
- High population growth: Strains resources and public services.
- Limited industrialization: Most employment is in agriculture or informal sectors.
- Poor infrastructure: Inadequate roads, electricity, and water limit productivity.
- Dependence on foreign aid: Budget and project funding often rely on donors.

9. “Planning is a powerful instrument in maintaining economic stability in the country.” Provide five arguments to justify this statement.

- Reduces resource wastage: Directs investment into high-priority and efficient areas.
- Balances regional development: Ensures even growth across urban and rural areas.
- Controls inflation and unemployment: Adjusts government spending and production targets.
- Prepares for emergencies: Builds resilience against shocks like droughts, pandemics, or economic crises.
- Encourages foreign investment: Well-laid plans give investors confidence in the economy’s direction.

10. (a) Differentiate a current account from a capital account.
The current account records trade in goods and services, income flows, and current transfers (e.g., remittances, aid).

The capital account records cross-border movement of capital, including loans, investments, and ownership of assets.

(b) Giving seven reasons, show that international trade is vital to the domestic economy.

- Access to foreign goods: Trade allows consumers to buy products not produced locally.
- Encourages specialization: Countries focus on producing what they do best, increasing efficiency.
- Earns foreign exchange: Export revenue funds imports and strengthens the currency.
- Expands market size: Local businesses sell beyond borders, increasing sales and profits.
- Transfers technology: Imports often come with modern methods and tools.
- Job creation: Export-oriented industries employ workers and support related services.
- Stimulates economic growth: Trade increases output, investment, and GDP through greater demand and competition.

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