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: 2017**

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 aggregate demand.
Aggregate demand is the total demand for all goods and services in an economy at a given overall price level and in a given time period. It includes consumption (C), investment (I), government spending (G), and net exports (X – M).

(b) Describe four determinants of aggregate demand.
- Consumer spending: Influenced by income, confidence, and interest rates.
- Investment spending: Affected by business expectations, interest rates, and taxes.
- Government expenditure: Public sector spending on infrastructure, wages, and services.
- Net exports: The balance between a country's exports and imports, influenced by exchange rates and foreign demand.

(c) Briefly explain the meaning of the following concepts:
(i) Leakages: Withdrawals from the circular flow of income, such as savings, taxes, and imports, which reduce aggregate demand.
(ii) Injections: Additions to the circular flow like investment, government spending, and exports, increasing aggregate demand.
(iii) Deflationary gap: Occurs when aggregate demand is less than the full employment level, leading to unemployment and underproduction.
(iv) Inflationary gap: Exists when aggregate demand exceeds full employment level, causing rising prices.
(v) Balanced Budget multiplier: The idea that an equal increase in government spending and taxation will still increase national income by the amount of the spending.

2. (a) Suggest four measures which can be adopted in managing the public debt.
- Budget discipline: Reducing deficits by cutting spending or increasing taxes.
- Debt restructuring: Negotiating better terms or extending repayment periods.
- Economic growth: Higher GDP increases tax revenue and reduces debt burden.
- Diversifying borrowing: Spreading debt sources between domestic and international markets to reduce risk.

(b) Examine four ways of classifying the public debt.
- Internal vs external debt: Based on whether the debt is borrowed domestically or internationally.
- Short-term vs long-term debt: Based on repayment period—under or over one year.
- Voluntary vs compulsory debt: Voluntary comes from willing lenders; compulsory may be enforced by law.
- Funded vs unfunded debt: Funded has specified repayment plans; unfunded lacks detailed repayment structure.

3. (a) "The more liquid an asset is the less profitable it becomes." Justify by five ways commercial banks reconcile liquidity and profitability.

- Portfolio balancing: Holding a mix of highly liquid assets and profitable long-term loans.

- Tiered maturity strategy: Investing in short-term and long-term assets to maintain both liquidity and returns.
- Use of central bank facilities: Borrowing in emergencies while keeping more funds invested.
- Adjusting interest rates: Charging higher rates on long-term loans to compensate for reduced liquidity.
- Risk assessment: Prioritizing safe but slightly less liquid assets to balance income and security.

(b) Describe how each monetary policy instrument works to control money supply:

(i) Open market operations: Central bank buys/sells government securities to increase or reduce liquidity in the banking system.
(ii) Bank rate or discount rate: Raising the rate discourages borrowing by commercial banks, reducing money supply; lowering it encourages lending.
(iii) Reserve requirement ratio: Increasing this ratio reduces the amount banks can lend, decreasing money supply.
(iv) Selective credit control: Central bank directs credit to priority sectors and restricts credit to non-essential or speculative sectors.
(v) Moral suasion: The central bank uses persuasion, appeals, and guidance instead of legal tools to influence banks' behavior regarding credit expansion.

4. (a) Define the following economic concepts:
(i) Transport: The movement of goods, people, and services from one location to another.
(ii) Communication: The exchange of information through spoken, written, or electronic means.

(b) Examine eight roles played by transport and communication in the economy:

- Market access: Helps farmers and producers access wider markets.
- Reduces regional disparities: Integrates remote areas into national development.
- Employment creation: Provides direct and indirect jobs in logistics and telecom sectors.
- Promotes trade: Facilitates movement of goods across regions and borders.
- Encourages investment: Attracts investors due to ease of logistics and information flow.
- Enhances productivity: Reduces time and costs, allowing better resource allocation.
- Improves service delivery: Aids in the provision of health, education, and emergency services.
- Supports tourism and international relations: Helps attract visitors and enhances diplomatic communication.

5. Agriculture is the backbone of the Tanzanian economy. Account for ten measures which may be adopted to improve production in the agricultural sector.

- Expand irrigation: Reducing reliance on rainfall through dams and irrigation schemes ensures year-round farming and increased productivity.
- Improve rural infrastructure: Building rural roads, storage facilities, and electricity improves access to markets and reduces post-harvest losses.
- Provide subsidized inputs: Fertilizers, improved seeds, and farm equipment should be made affordable to increase output.

- Promote agricultural research: Supporting institutions to develop pest-resistant and high-yield varieties helps farmers produce more efficiently.
- Strengthen extension services: Trained officers should educate farmers on modern techniques, pest control, and soil management.
- Enhance access to credit: Establishing agricultural banks or cooperative finance schemes gives farmers the capital to invest in production.
- Introduce crop insurance: Protects farmers against crop failure due to drought, pests, or floods, encouraging continued investment.
- Support agro-processing: Establishing processing industries near farms adds value and prevents wastage.
- Land reform and security: Issuing land titles encourages long-term investment and enables farmers to use land as collateral.
- Encourage cooperatives: Farmer groups can access bulk inputs, training, and marketing services more efficiently.

6. (a) "Adequate capital formation leads into a greater degree of economic growth." Substantiate this statement with six arguments.

- Enables investment: Capital formation provides machinery, buildings, and infrastructure essential for production.
- Increases productivity: Modern tools and technology enhance labor efficiency and reduce waste.
- Stimulates employment: Investment in industries and infrastructure creates direct and indirect job opportunities.
- Enhances infrastructure: Public capital spending on roads, power, and communication fosters private sector development.
- Boosts income and consumption: More investment leads to business growth, higher incomes, and demand for goods.
- Encourages innovation: With enough capital, firms can invest in R&D and adopt new technologies for economic advancement.

(b) Describe the meaning of the following economic concepts:

(i) Economic dependence: A situation where a country relies heavily on another for resources, markets, or finance, limiting its economic autonomy.
(ii) Economic interdependence: Mutual reliance between countries where they exchange goods, services, and capital, promoting cooperation and stability.
(iii) Social infrastructure: Non-physical systems like education, health, and sanitation services that support human development.
(iv) Economic infrastructure: Physical systems like transport, power, and water supply that facilitate production and trade.

7. "Economic integration is not only an imperative for the developing countries like Tanzania but also a bitter pill to be swallowed by these countries." Critically discuss this contention by giving six advantages and four disadvantages of economic integration.

Advantages:
- Enlarged markets: Members access wider markets for their goods and services.
- Reduces trade barriers: Enhances intra-regional trade by eliminating tariffs and quotas.
- Encourages investment: Larger markets attract both local and foreign investors.
- Resource optimization: Countries specialize based on comparative advantage, improving efficiency.
- Strengthens bargaining power: Unified blocs negotiate better trade deals internationally.
- Promotes peace and cooperation: Shared goals reduce conflict among members.

Disadvantages:
- Unequal benefits: Stronger economies may dominate weaker ones, increasing inequality.
- Revenue loss: Removal of tariffs reduces government income from imports.
- Political interference: National sovereignty may be compromised in regional decision-making.
- Structural dependency: Over-reliance on neighboring markets can expose members to regional shocks.

8. (a) Briefly explain the following economic concepts:

(i) The theory of absolute advantage: A country has absolute advantage when it can produce a good more efficiently (using fewer resources) than another country.
(ii) The theory of comparative advantage: A country benefits by specializing in producing goods it can produce at a lower opportunity cost, even if it has absolute advantage in both goods.
(iii) Recycling of raw materials: The process of collecting and reprocessing used materials (e.g., plastics, metals) into new products to conserve resources and reduce waste.
(iv) Primary products: Raw materials extracted from nature like crops, minerals, and timber, usually used as inputs for manufacturing.
(v) Protectionism: Use of tariffs, quotas, and subsidies to shield domestic industries from foreign competition.
(vi) Strategic dumping: Selling goods abroad at very low prices to gain market share and eliminate competition, often with long-term strategic goals.

(b) Table-based analysis:

Countries	Tea (tons/hr)	Sisal (tons/hr)
Tanzania	18	12
Kenya	9	4

(i) Which country has got absolute advantage in Tea?
Tanzania, because it produces more tea (18 tons) per hour than Kenya (9 tons).

(ii) Least cost comparative disadvantage in Sisal?
Kenya has lower productivity in both goods, but its relative disadvantage is greater in Sisal (4 vs 12). Therefore, Tanzania should specialize in Tea, Kenya in Sisal.

(iii) Which country has got comparative advantage in Tea?

Tanzania. The opportunity cost of producing 1 ton of Tea for Tanzania is 12/18 = 0.67 tons of Sisal. For Kenya, it's 4/9 = 0.44 tons of Sisal. Since Tanzania sacrifices less Sisal per Tea unit, it has a comparative advantage in Tea.

(iv) How should the two countries specialize to gain in specialization?

Tanzania should specialize in Tea, and Kenya in Sisal. Each country produces what it is relatively more efficient at, then they trade to benefit mutually.