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: 2018**

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) Briefly explain the following methods in determining national income:

(i) Expenditure method

The expenditure method calculates national income by summing up all the expenditures made on final goods and services within a country over a specific period. It includes consumption expenditure by households, investment by businesses, government spending on goods and services, and net exports (exports minus imports). This method reflects the total demand in the economy and is often expressed as GDP = C + I + G + (X - M), where C is consumption, I is investment, G is government spending, X is exports, and M is imports.

(ii) Income method

The income method measures national income by adding up all the incomes earned by factors of production within a country over a period. This includes wages and salaries for labor, rent for land, interest for capital, and profits for entrepreneurs, adjusted for taxes and subsidies. It focuses on the distribution of income among the factors of production and ensures that only incomes generated from domestic production are included, excluding transfer payments like pensions.

1. (b) Account for eight factors which hinder proper and accurate measuring of the national income of a particular country.

One factor is the existence of a large informal sector, where many economic activities, such as street vending or subsistence farming, go unrecorded due to lack of formal documentation, leading to underestimation of national income.

Inadequate data collection systems pose a challenge, as many developing countries lack the resources or infrastructure to gather comprehensive and accurate economic data, resulting in incomplete or unreliable national income figures.

Non-monetized transactions, such as barter trade or self-consumption in rural areas, are difficult to measure in monetary terms, causing significant economic activities to be excluded from national income calculations.

Double counting can distort national income figures, as the value of intermediate goods may be counted multiple times if not properly adjusted, inflating the total income without reflecting actual production.

Depreciation of capital assets is often hard to estimate accurately, and incorrect adjustments for the wear and tear of machinery or infrastructure can lead to overestimation or underestimation of net national income.

Income inequality and underreporting of income, especially by high earners or businesses to evade taxes, result in inaccurate income data, as official records fail to capture the true earnings of individuals and firms.

Fluctuations in prices and inflation make it challenging to measure national income in real terms, as nominal values may not reflect the actual purchasing power or economic growth, requiring complex adjustments.

Illegal activities, such as smuggling or black market transactions, are typically not reported, yet they contribute to economic activity, leading to an underestimation of national income if these are not accounted for.

2. (a) Provide five reasons which force the government to impose tax in a country.

Governments impose taxes to raise revenue for public expenditure, such as funding infrastructure projects like roads, schools, and hospitals, ensuring the provision of essential services to citizens.

Taxes are used to redistribute income and reduce inequality by taxing higher earners at progressive rates and using the revenue to provide social services or subsidies for the poor, promoting social equity.

Taxation helps control economic activities, such as discouraging harmful behaviors like smoking through high taxes on cigarettes, or encouraging investment by offering tax incentives to businesses.

Governments use taxes to manage inflation and stabilize the economy, for example, by increasing taxes to reduce consumer spending during periods of high inflation, thus cooling down demand.

Taxes fund national defense and security, enabling the government to maintain armed forces, police services, and other security measures to protect the country and its citizens from internal and external threats.

2. (b) Elaborate five functions of the government budget.

The government budget allocates resources by outlining planned expenditures and revenues, ensuring funds are directed to priority areas like education, healthcare, and infrastructure to meet national development goals.

It serves as a tool for economic stabilization, allowing the government to adjust spending and taxation to control inflation, reduce unemployment, or stimulate growth, such as increasing spending during a recession.

The budget facilitates income redistribution by collecting taxes from wealthier segments and allocating funds to social programs, such as welfare or subsidies, to support the less privileged and reduce inequality.

It promotes economic growth by investing in public goods and services, like transportation networks or research and development, which create an enabling environment for private sector activity and long-term development.

The budget ensures accountability and transparency, as it provides a framework for monitoring government spending, enabling citizens and policymakers to evaluate how public funds are used and ensuring fiscal responsibility.

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3. Examine five advantages and disadvantages of foreign aid to a recipient country.

Advantages:

Foreign aid provides financial resources to fund development projects, such as building schools or hospitals, which a recipient country like Tanzania may lack the capital to undertake, improving infrastructure and living standards.

It supports economic growth by filling the savings-investment gap, allowing countries to invest in productive sectors like agriculture or manufacturing, which can create jobs and boost GDP, as seen with aid-funded irrigation projects.

Foreign aid often comes with technical expertise, such as training programs or technology transfers, which enhance local skills and capacity, for example, through agricultural extension services that improve farming techniques.

It can address humanitarian crises, providing immediate relief during disasters like floods or famines, ensuring food security and medical care, which saves lives and stabilizes communities in the short term.

Aid can strengthen international relations, fostering diplomatic ties between donor and recipient countries, which may lead to trade agreements or political support, enhancing the recipient's global standing.

Disadvantages:

Foreign aid can create dependency, as recipient countries may rely on external funding instead of developing self-sustaining revenue sources, weakening long-term economic independence and resilience.

It may lead to debt burdens if aid comes in the form of loans with high interest rates, as seen in some African countries where repayment obligations strain national budgets, diverting funds from development.

Aid can distort local markets, for example, by flooding markets with free food aid, which depresses prices and harms local farmers, undermining agricultural self-sufficiency and long-term food security.

There is a risk of mismanagement or corruption, where aid funds are misappropriated by officials, failing to reach intended projects, as seen in cases where infrastructure projects remain incomplete despite significant aid inflows.

Foreign aid may come with conditions, such as policy reforms or trade agreements, that prioritize donor interests over the recipient's needs, potentially leading to economic policies that do not align with local priorities.

4. (a) Summarize three strengths and weaknesses of Savings and Credit Cooperative Societies (SACCOS) operating in Tanzania.

Strengths:

SACCOS provide access to affordable credit for rural and low-income communities in Tanzania, enabling members to finance small businesses or agricultural activities, which promotes financial inclusion and economic empowerment.

They encourage a savings culture among members by requiring regular contributions, helping individuals build financial security and resilience, which can be used for emergencies or investments like school fees.

SACCOS are community-based, fostering trust and social cohesion, as members often know each other, ensuring accountability in loan repayment and collective decision-making, which strengthens local networks.

Weaknesses:

Many SACCOS in Tanzania suffer from poor management and lack of financial expertise, leading to inefficiencies, mismanagement of funds, or failure to recover loans, which can result in financial losses or collapse.

They often have limited capital and resources, restricting their ability to offer large loans or expand services, which limits their impact on members who need significant funding for bigger projects.

SACCOS face challenges with loan defaults, as some members fail to repay due to economic hardships or lack of financial discipline, straining the cooperative's funds and affecting its sustainability.

4. (b) Describe four methods used by farmers to market their products in the rural areas in Tanzania.

Farmers in rural Tanzania often sell their products directly at local markets, where they set up stalls to offer crops like maize or vegetables to consumers, providing a straightforward way to reach buyers and earn income.

They use middlemen or agents who purchase produce in bulk from farmers and transport it to urban markets or wholesalers, offering farmers immediate cash but often at lower prices due to the middlemen's margins.

Some farmers form cooperatives, pooling their produce to sell collectively, which gives them better bargaining power and access to larger markets, such as selling coffee through cooperative unions to exporters.

Farmers also rely on roadside sales, displaying their goods along major roads or highways to attract passing buyers, a common method for perishable items like fruits, though it depends on traffic and weather conditions.

Section B

5. (a) Distinguish the following economic concepts:

(i) Balance of trade from balance of payments

The balance of trade refers to the difference between a country's exports and imports of goods over a specific period, focusing solely on visible trade, where a surplus occurs if exports exceed imports. The balance of payments, however, is a broader concept, encompassing all economic transactions between residents of a country and the rest of the world, including trade in goods, services, capital flows, and transfers.

(ii) Trade diversion from trade creation

Trade diversion occurs when a country shifts its imports from a more efficient global producer to a less efficient one within a trade bloc due to preferential trade agreements, such as importing from a regional partner instead of a lower-cost outsider. Trade creation happens when a trade agreement leads to increased trade among member countries by replacing high-cost domestic production with lower-cost imports from within the bloc, boosting overall trade efficiency.

(iii) Theory of absolute advantage from comparative advantage

The theory of absolute advantage, proposed by Adam Smith, states that a country should specialize in producing goods it can produce more efficiently (with fewer resources) than another country, leading to trade benefits. The theory of comparative advantage, developed by David Ricardo, argues that a country should specialize in goods it can produce at a lower opportunity cost, even if it lacks an absolute advantage, enabling mutual gains from trade.

(iv) Devaluation from depreciation

Devaluation is a deliberate government action to reduce the value of a country's currency under a fixed exchange rate regime, aiming to boost exports by making them cheaper, as seen in historical cases like the UK in 1967. Depreciation occurs naturally in a floating exchange rate system, where market forces cause a currency's value to fall due to factors like reduced demand or economic instability, without direct government intervention.

(v) Quotas from tariffs

Quotas are quantitative restrictions on the amount of a good that can be imported into a country, limiting supply to protect domestic industries, such as restricting car imports to 10,000 units annually. Tariffs are taxes imposed on imported goods, increasing their price to reduce demand and protect local producers, like a 20% tax on imported electronics, generating government revenue while discouraging imports.

5. (b) Briefly explain five main items falling under the invisible balance of the balance of payments.

The invisible balance includes trade in services, such as tourism, where a country earns foreign exchange from international visitors, like Tanzania from safari tourists, or pays for its citizens traveling abroad.

It covers financial services, such as banking and insurance, where earnings from foreign clients, like fees for international transactions, or payments for services used abroad are recorded in the balance of payments.

Transportation services are included, such as revenue from shipping or airline services provided to foreigners, like a Tanzanian airline carrying international passengers, or payments for foreign transport services used by residents.

Investment income falls under the invisible balance, including profits, dividends, or interest earned from foreign investments, such as a Tanzanian company receiving dividends from overseas, or payments to foreign investors.

Finally, it includes transfers like remittances, where money sent by citizens working abroad, such as Tanzanians in the diaspora, is recorded as an inflow, or aid and grants received from foreign governments or organizations.

6. (a) Explain six principles which guide the United Nations Organization in fulfilling its objectives.

The United Nations (UN) operates on the principle of sovereign equality, ensuring all member states, regardless of size or power, have equal rights and representation in the General Assembly, promoting fairness in global decision-making.

It promotes peaceful coexistence, encouraging member states to resolve disputes through dialogue and diplomacy rather than conflict, as outlined in the UN Charter, to maintain international peace and security.

The principle of non-interference guides the UN, prohibiting it from intervening in matters within a state's domestic jurisdiction, except in cases of threats to peace, ensuring respect for national sovereignty.

Collective security is a core principle, where member states agree to collectively address threats to peace, such as through peacekeeping missions, to protect global stability, as seen in UN missions in conflict zones.

The UN upholds human rights, committing to protect and promote fundamental rights and freedoms for all, as stated in the Universal Declaration of Human Rights, guiding its humanitarian and development efforts.

It emphasizes international cooperation, encouraging member states to work together on global challenges like climate change, poverty, and health crises, fostering collaboration through agencies like the WHO and UNDP.

6. (b) Describe the four forms of the regional economic integration.

A preferential trade area is the simplest form of regional economic integration, where member countries agree to reduce trade barriers, like tariffs, on specific goods among themselves, while maintaining individual trade policies with non-members, such as the African Continental Free Trade Area's initial stages.

A free trade area involves deeper integration, where members eliminate tariffs and trade barriers on most goods among themselves but retain independent external trade policies, as seen in the East African Community (EAC), allowing free trade within the region.

A customs union builds on a free trade area by adopting a common external tariff on imports from non-members, ensuring uniform trade policies, like the Southern African Customs Union (SACU), which harmonizes tariffs for its members.

A common market further integrates by allowing the free movement of factors of production, such as labor and capital, in addition to goods, as in the European Union, where citizens can work across member states without restrictions.

7. (a) Briefly explain the meaning of the following economic concepts:

(i) General planning

General planning refers to a broad, overarching strategy for economic development that outlines goals and policies across all sectors of the economy, such as agriculture, industry, and education, to achieve balanced growth over a specified period.

(ii) Compulsory planning

Compulsory planning, also known as directive planning, involves a central authority, typically the government, setting mandatory targets and resource allocations for all sectors, as seen in command economies like the former Soviet Union, where compliance is enforced.

(iii) Short term planning

Short term planning focuses on immediate economic goals, typically spanning one to three years, addressing urgent issues like inflation control or food security, often through annual budgets or emergency measures to stabilize the economy.

(iv) Medium term planning

Medium term planning covers a period of three to seven years, aiming to achieve specific developmental objectives, such as infrastructure development or poverty reduction, balancing short-term needs with long-term goals, as seen in many national development plans.

(v) Perspective planning

Perspective planning involves long-term strategies, often spanning 10 to 20 years, to achieve major structural changes, like industrialization or sustainable development, providing a vision for the future, such as Tanzania's Vision 2025.

7. (b) Differentiate planning in command economies and planning in free market economies.

In command economies, planning is centralized, with the government controlling all economic activities, setting production targets, and allocating resources through compulsory plans, as seen in North Korea, ensuring state-driven development but often lacking flexibility.

In free market economies, planning is decentralized, with the government playing a minimal role, and resource allocation is driven by market forces like supply and demand, as in the United States, promoting efficiency but risking inequality.

Command economies use directive planning, enforcing strict compliance with targets, such as quotas for agricultural output, which can lead to inefficiencies due to lack of market feedback, while free market planning is indicative, offering guidelines without enforcement.

In command economies, the focus is on collective goals, like industrialization, often at the expense of consumer choice, whereas free market planning prioritizes individual preferences, allowing firms and consumers to make decisions based on market signals.

Command economies may suppress innovation due to rigid plans, as resources are allocated by the state, while free market economies encourage innovation through competition, though they may underprovide public goods like healthcare without government intervention.

8. (a) Identify six obstacles faced by the developing countries like Tanzania in their efforts to industrialize.

Limited capital availability hinders industrialization in Tanzania, as the country struggles to raise funds for large-scale industrial projects, relying heavily on foreign investment or aid, which may come with unfavorable conditions.

Inadequate infrastructure, such as unreliable electricity and poor transportation networks, increases production costs and delays, making it difficult for industries to operate efficiently or compete in global markets.

A lack of skilled labor and technical expertise slows industrial growth, as many Tanzanians lack the education or training needed for modern industries, requiring costly imports of foreign expertise or extensive training programs.

Political instability and corruption deter investment, as inconsistent policies or mismanagement of resources create an uncertain business environment, discouraging both domestic and foreign investors from supporting industrial development.

Dependence on primary exports, like agricultural goods, limits industrial diversification, as Tanzania focuses on raw material exports rather than value-added manufacturing, reducing the economic base needed for industrial growth.

Global competition and trade barriers make it hard for Tanzanian industries to penetrate international markets, as they face competition from established industries in developed countries and restrictive tariffs or quotas imposed by trading partners.

8. (b) Provide four solutions to overcome obstacles faced by the developing countries like Tanzania in the process of industrialization.

Investing in education and vocational training can address the skills gap by equipping the workforce with technical and industrial skills, enabling Tanzania to build a competent labor force to support modern industries.

Improving infrastructure, such as expanding electricity access and upgrading transportation networks, reduces production costs and enhances efficiency, making industrial activities more viable and attractive to investors.

Promoting good governance and political stability creates a conducive environment for industrialization by reducing corruption, ensuring policy consistency, and building investor confidence in long-term industrial projects.

Encouraging public-private partnerships can mobilize capital and expertise, allowing the government to collaborate with private firms to fund and manage industrial projects, leveraging private sector efficiency to drive industrial growth.