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: 2019**

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) Given the saving function as $S = -10 + 0.4Yd$:
(i) Marginal Propensity to Consume (MPC)
From the saving function, Marginal Propensity to Save (MPS) = 0.4.
Since MPC + MPS = 1, then MPC = 1 - 0.4 = 0.6.

(ii) Investment multiplier
Multiplier (k) = 1 / (1 - MPC) = 1 / (1 - 0.6) = 1 / 0.4 = 2.5.
Interpretation: A one-unit increase in investment leads to a 2.5-unit increase in national income. This shows how powerful investment is in stimulating overall economic activity.

(b) Explain the importance of national income statistics to an economy (seven points):

- Measures economic performance: National income shows if the economy is growing or shrinking, guiding policy decisions.
- Assesses living standards: GDP per capita helps compare welfare across time or countries.
- Guides policy formulation: Helps the government to make decisions on taxation, spending, and investment.
- Facilitates international comparison: Helps compare Tanzania's economic position globally.
- Attracts foreign investment: Consistent growth encourages investors and builds confidence.
- Determines contribution of sectors: Shows how much each sector (agriculture, industry, services) adds to the economy.
- Helps budget planning: Assists the government in estimating revenues and allocating resources effectively.

2. (a) Describe five objectives of the government expenditures.

- Provision of public goods: Funding for education, healthcare, roads, and security.
- Income redistribution: Through welfare programs and subsidies for the poor.
- Economic stabilization: Government spending helps reduce inflation or unemployment during economic fluctuations.
- Promoting economic growth: Investments in infrastructure, R&D, and industry.
- Debt servicing: Paying interest and principal on public debt to maintain creditworthiness.

(b) Briefly explain five canons of a good taxation system:

- Canon of equity: Tax should be fair—rich should pay more than the poor.
- Canon of certainty: Taxpayers should know how much to pay, when, and to whom.
- Canon of convenience: Tax collection should be simple and convenient for the payer.
- Canon of economy: Collection cost should be low compared to the revenue raised.
- Canon of productivity: The system should generate adequate revenue to meet government needs.

3. (a) Evaluate five factors which limit the process of credit creation of the commercial banks in Tanzania:

- High reserve requirements: Central bank regulations limit the amount banks can lend.
- Public preference for cash: When people withdraw deposits, the base for credit shrinks.

- Low banking habits: A large informal sector and cash-based economy reduce deposits.
- Risk of loan defaults: High non-performing loans discourage banks from lending.
- Weak financial infrastructure: Inadequate credit reference systems and legal enforcement mechanisms limit credit expansion.

(b) Examine five functions of the Bank of Tanzania which promote economic growth:

- Controlling inflation: Through monetary policy and interest rate adjustments.
- Ensuring financial stability: Regulating commercial banks to prevent collapses.
- Issuing currency: Ensures smooth circulation and controls counterfeit money.
- Managing foreign reserves: Stabilizes the exchange rate and supports trade.
- Providing loans to government and banks: Acts as lender of last resort to ensure liquidity.

4. (a) What is:

(i) Exchange Control
A system where the central bank restricts the purchase and sale of foreign currencies to stabilize the local currency, control capital flows, and protect foreign reserves.

(ii) Foreign Exchange Reserves
These are assets (usually in foreign currencies) held by a country's central bank. They include foreign currencies, bonds, gold, and SDRs, used to pay international debts and stabilize the local currency.

(b) Briefly explain the four main significance of foreign exchange reserves:

- Stabilize the exchange rate: Prevents excessive depreciation or appreciation of the shilling.
- Meet international obligations: Used to pay external debts and import bills.
- Build investor confidence: Adequate reserves attract FDI and signal macroeconomic stability.
- Cushion economic shocks: Reserves help manage balance of payments deficits and economic crises.

(c) Elaborate five objectives of the foreign exchange control system:

- Conserve foreign exchange: Prevents excessive outflows that weaken reserves.
- Stabilize the currency: Controls volatility in the forex market.
- Ensure priority imports: Allocates scarce forex to essential goods like medicine and fuel.
- Prevent capital flight: Stops illegal movement of funds abroad.
- Control inflation: By regulating imports and currency value, it reduces cost-push inflation.

5. (a) Distinguish between the following concepts:

(i) Consumer planning and producer planning
Consumer planning focuses on determining what, how, and when to consume goods and services to maximize satisfaction. It is based on individual needs, income, preferences, and priorities.

Producer planning involves decisions related to production activities—what to produce, how to produce, and for whom to produce. It considers input costs, technology, market demand, and profit motives.

(ii) Partial planning and comprehensive planning
Partial planning targets a specific sector or region without considering the full economic context—e.g., planning for agriculture alone.
Comprehensive planning considers the entire economy, integrating all sectors and regions into one unified national development strategy.

(b) Explain eight importance of planning in bringing proper allocation of resources in the economy

- Avoids wastage: Planning ensures that resources are allocated where they yield the most output, minimizing misallocation.
- Ensures balanced development: Distributes investments across regions and sectors, reducing inequalities.
- Mobilizes resources: Planning identifies available resources and channels them into productive uses.
- Encourages investment: Clear plans attract local and foreign investors through predictable policies.
- Guides government policies: Planning aligns fiscal, monetary, and industrial policies with long-term goals.
- Prioritizes development goals: Helps focus on critical areas like health, education, and infrastructure.
- Monitors and evaluates progress: Planning sets targets and tools for measuring achievements.
- Enhances coordination: Harmonizes activities of public institutions, private sector, and donors.

6. (a) Account for the major problems facing Cooperative societies in developing countries like Tanzania. Give six points.

- Mismanagement and corruption: Funds are often embezzled or misused due to poor leadership and weak oversight.
- Low member participation: Members lose interest due to lack of transparency or benefits, weakening operations.
- Political interference: Government influence undermines autonomy and professional decision-making.
- Poor access to credit: Most cooperatives lack collateral or financial discipline, limiting bank support.
- Inadequate education: Leaders and members often lack training in business and cooperative management.
- Weak legal support: Outdated laws and poor enforcement discourage accountability and investment.

(b) Outline the four main principles of Cooperatives Societies

- Voluntary and open membership: Cooperatives are open to all without discrimination.
- Democratic member control: Decisions are made on a one-member-one-vote basis.
- Member economic participation: Members contribute equitably to the capital and control its use.
- Autonomy and independence: Cooperatives operate independently of government or external control.

7. (a) State four roles of the industrial sector in the growth of the agricultural sector.

- Provides inputs: Supplies machinery, fertilizers, pesticides, and irrigation equipment to boost productivity.

- Promotes agro-processing: Adds value to agricultural produce through processing (e.g., milling, canning).
- Creates rural employment: Establishes agro-based industries near farms, generating non-farm rural jobs.
- Stimulates infrastructure development: Industry-led investments in roads, power, and water benefit agriculture.

(b) “Industrial sector is the key for economic development of many developed countries.” Why this sector is not successful in Tanzania? Give six points.

- Inadequate infrastructure: Unreliable power supply, poor roads, and water shortages hinder industrialization.
- Capital scarcity: Lack of financial institutions willing to fund industrial ventures limits growth.
- Dependence on imports: Overreliance on imported raw materials and machinery raises costs.
- Low technology adoption: Many firms use outdated tools, leading to low productivity.
- Weak policy support: Inconsistent industrial policies and bureaucracy discourage long-term investment.
- Small domestic market: Low purchasing power and limited exports reduce industrial profitability.

8. (a) Describe six determinants of economic growth.

- Natural resources: Availability and sustainable use of land, minerals, water, and forests stimulate production.
- Human capital: Education, skills, and health of the labor force improve productivity.
- Capital formation: Investment in machinery, infrastructure, and buildings boosts production capacity.
- Technological progress: Innovation and modern tools raise efficiency and output.
- Political stability: Peace, security, and good governance create a favorable investment climate.
- Institutional quality: Strong institutions enforce laws, protect property rights, and support market operations.

(b) Briefly distinguish the following types of dependency:

(i) Technological dependence from Trade dependence
Technological dependence is reliance on foreign technology for production and innovation, limiting local development and increasing vulnerability to foreign interests.
Trade dependence is overreliance on a few export or import goods, making the economy vulnerable to external price changes and trade shocks.

(ii) Political dependence from Financial dependence
Political dependence involves foreign influence over domestic decisions, policies, or governance due to diplomatic or military ties.
Financial dependence is reliance on foreign aid, loans, or external funding for national budgets, often with attached conditions that may limit sovereignty.