

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: 2020

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. In five points, differentiate economic integration from economic cooperation in the country.

- Structure and depth: Economic integration involves formal agreements to merge economies through common markets or monetary unions, while economic cooperation is less binding and focuses on collaboration without merging policies.

- Market freedom: Integration includes elimination of tariffs and trade barriers among members, creating a single market. Cooperation allows countries to maintain independent trade policies.

- Policy harmonization: Integration leads to unified fiscal, monetary, and legal systems. Cooperation does not require harmonization of national policies.

- Commitment level: Integration is deeper and often permanent (e.g., EU or EAC), while cooperation is flexible and based on mutual interest in specific projects.

- Examples: Economic integration includes Customs Union, Common Market. Economic cooperation includes joint infrastructure, shared research, or coordinated aid efforts.

2. Examine five benefits of economic growth in the Tanzanian economy.

- Job creation: Growth leads to increased production, encouraging businesses to expand and hire more workers, reducing unemployment.

- Improved standard of living: Rising income allows people to access better food, education, healthcare, and housing.

- Higher government revenue: Economic growth expands the tax base, increasing funds for social services and infrastructure investment.

- Encourages investment: A growing economy attracts both domestic and foreign investors due to expected returns and market potential.

- Technological advancement: Growth fosters innovation, modernization of industries, and improved productivity across sectors.

3. (a) Present the data through Lorenz Curves.

This requires plotting two lines on the same graph:

- The line of perfect equality: a straight diagonal from (0,0) to (100,100).

- The Lorenz curve: plotted using the cumulative income percentages (0.3, 0.9, 1.8, 4.8, 10.8, 20.8, 33.0, 49.0, 69.0, 100) against population shares.

(b) Economic interpretation of the Lorenz curve:

The Lorenz curve lies far below the line of equality, indicating high income inequality. A small proportion of the population receives a large share of the income. For example, 80% of the population receives only 49% of the income, while the top 20% earns 51%.

(c) Five benefits of income inequality in the economy:

- Encourages investment: Wealthy individuals save and invest more, stimulating economic activity and job creation.
- Incentive for productivity: Differences in income motivate individuals to work harder, seek education, or innovate to improve their earnings.
- Capital accumulation: High earners generate surplus capital that can be used to finance infrastructure, industries, and other development projects.
- Market expansion: A wealthier class can afford luxury goods, supporting specialized industries and expanding the range of market demand.
- Tax generation: Income inequality enables progressive taxation where the rich pay more, supporting public spending on health, education, and poverty relief.

4. (a) Calculate the tax payable:

Category	Income	Tax Rate	Tax Payable
A	400,000	0%	0
A	800,000	25%	200,000
A	2,000,000	50%	1,000,000
B	400,000	40%	160,000
B	800,000	40%	320,000
B	2,000,000	40%	800,000
C	400,000	60%	240,000
C	800,000	30%	240,000
C	2,000,000	20%	400,000

(b) Identify the taxation systems in category A, B, and C:

- Category A: Progressive taxation

Reasons: Tax rate increases with income, and the rich pay a larger share.

Example: 0% at low income, 25% at mid-level, 50% at high income.

- Category B: Proportional taxation

Reasons: Flat tax rate of 40% for all income levels.

Everyone pays the same rate regardless of income.

- Category C: Regressive taxation

Reasons: Tax rate decreases as income increases, burdening low-income earners more proportionally.

E.g., 60% at 400,000 but only 20% at 2,000,000.

(c) One practical example of each taxation category:

- Progressive: Personal income tax with progressive slabs in Tanzania.
- Proportional: Corporate tax rates charged uniformly at 30% on company profits.
- Regressive: Indirect taxes like VAT, where all consumers pay the same rate regardless of income.

5. Describe six advantages and four disadvantages of the operations of foreign commercial banks in the economy.

Advantages:

- Capital injection: Foreign banks bring in financial capital that supports local credit markets, increases liquidity, and finances development projects.
- Technology and innovation: They introduce modern banking technologies, digital platforms, and efficient customer service models, improving the quality of banking services.
- Employment creation: These banks open branches and hire local staff, creating direct and indirect job opportunities.
- International linkages: Foreign banks facilitate international trade, foreign exchange transactions, and remittances, boosting economic globalization.
- Competition and efficiency: Their presence forces local banks to improve services, reduce interest rates, and innovate, benefiting consumers.
- Financial sector development: They help modernize the financial system through improved governance, product diversification, and integration with global standards.

Disadvantages:

- Repatriation of profits: Most profits are sent back to the parent country, limiting reinvestment in the host economy.
- Focus on large clients: Foreign banks may prioritize multinational firms and wealthy individuals, neglecting rural communities and SMEs.
- Cultural and policy misalignment: They may not fully understand or adapt to local customs, regulations, or development priorities.
- Risk of capital flight: In times of crisis, they may withdraw capital quickly, destabilizing the local banking system.

6. Suggest six strategies which can be adopted by the Tanzanian government to improve production in the agricultural sector.

- Improve rural infrastructure: Invest in roads, irrigation systems, and storage facilities to reduce post-harvest losses and ensure year-round farming.
- Subsidize agricultural inputs: Make fertilizers, quality seeds, and farm tools more affordable through subsidies or government-supported distribution schemes.
- Provide access to credit: Facilitate low-interest agricultural loans through banks or cooperatives to help farmers invest in better technologies.
- Promote agricultural research and extension services: Strengthen institutions that develop new farming techniques and disseminate knowledge to farmers.
- Support market access: Establish marketing boards, cooperative unions, and price stabilization programs to ensure farmers get fair prices.
- Enhance land policy and tenure security: Clarify land ownership to encourage long-term investment in land improvements and productivity.

7. Explain the main six problems that have faced cooperative societies in most less developed countries like Tanzania.

- Mismanagement and corruption: Many cooperatives suffer from poor governance, misappropriation of funds, and lack of accountability, undermining member trust.
- Political interference: Government influence in cooperative leadership and operations reduces autonomy and often leads to inefficiencies.
- Inadequate financial resources: Cooperatives lack access to working capital, making it hard to support members, buy equipment, or expand services.
- Poor training and education: Many cooperative leaders and members lack managerial, financial, and technical skills needed for successful operations.
- Weak legal framework: Outdated or poorly enforced cooperative laws create loopholes and discourage investor confidence.
- Low member participation: Lack of transparency and benefits reduces member motivation, weakening the cooperative's effectiveness and reach.

8. “Unfavourable terms of trade and low exports are the dominant problems that cause disequilibrium in the balance of payments in the economy.” Substantiate this quotation by giving six causes of disequilibrium in the balance of payments of the economies of less developed countries.

- Export dependency on primary products: These commodities face price volatility and declining terms of trade, reducing foreign exchange earnings.
- Heavy importation: LDCs rely on importing machinery, oil, and manufactured goods, leading to persistent trade deficits.
- Low export diversification: Concentrating on a few products limits resilience. When one export fails, the entire balance of payments suffers.
- Capital outflows: Debt repayments, profit repatriation by multinationals, and illegal financial transfers reduce net inflows.
- Inadequate foreign investment: Political instability, weak infrastructure, and policy uncertainty deter FDI, limiting capital account inflows.

- Exchange rate misalignment: Overvalued currencies make exports less competitive and imports cheaper, worsening the current account deficit.