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: 2021**

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. Foreign aid may contribute in developing the economies of the poor countries. Briefly describe the main five forms of the foreign aid received by the recipient countries from donor countries.

- Bilateral aid: Aid given directly by one country to another, usually based on political, economic, or historical ties. It can be in the form of grants, technical assistance, or concessional loans.

- Multilateral aid: Aid provided through international organizations such as the World Bank, IMF, or UN agencies. Funds come from multiple donor countries and are allocated based on development needs.

- Humanitarian aid: Emergency assistance offered in times of crisis such as wars, natural disasters, or epidemics. It includes food, shelter, medicine, and rescue services.

- Technical assistance: Transfer of skills, knowledge, training, and technology to support the recipient country's institutional and human capacity building.

- Tied aid: Aid given with conditions that the recipient country must buy goods or services from the donor country, thus benefiting the donor's economy while providing support.

2. The member states in regional integration help each other to enjoy the economies of scale and improve production in the region. In this view, evaluate five benefits which can be enjoyed by the member states through economic integration.

- Expanded markets: Member countries access each other's markets, leading to increased trade, larger economies of scale, and enhanced competition.

- Resource sharing: Integration allows countries to share resources such as labor, capital, and raw materials more efficiently across borders.

- Attraction of foreign investment: Regional blocs present larger and more stable markets, attracting investors who seek scale and reduced trade barriers.

- Improved infrastructure: Joint infrastructure projects (like regional railways or energy grids) are more viable and benefit all members economically and logistically.

- Political and economic stability: Integration fosters cooperation, reduces conflict risk, and promotes joint policies that support growth, good governance, and regional peace.

3. (a) Complete the table for changes in consumption (ΔC) and savings (ΔS)

Year	DY	C	S	ΔC	ΔS
1990	90,000	80,000	10,000	-	-
1991	82,000	72,000	10,000	-8,000	0

1992	170,000	150,000	20,000	78,000	10,000
1993	260,000	230,000	30,000	80,000	10,000
1994	350,000	310,000	40,000	80,000	10,000

(b) Elaborate five determinants of consumption:

- Disposable income: As income increases, people tend to consume more because their purchasing power rises.

- Interest rates: High interest rates discourage borrowing and reduce consumption. Lower rates promote spending on durable and luxury goods.

- Consumer confidence: Expectations about future income, inflation, and employment affect willingness to spend.

- Wealth effect: People with higher assets like land, stocks, or houses tend to consume more due to their perceived financial security.

- Taxation: High taxes reduce disposable income and hence consumption, while tax cuts increase purchasing power and encourage spending.

4. (a) Credit creation process table:

Person	New Deposit	Cash Ratio	New Loans
A	1,000	200	800
B	800	160	640
C	640	128	512
D	512	102.40	409.60

Stages of credit creation:
Each person deposits money in the bank. The bank keeps part of the deposit as reserves (based on the cash ratio) and loans out the rest. The borrower spends the loaned money, and it is deposited again in the banking system. This cycle repeats, multiplying the initial deposit across the economy and expanding money supply.

(b) Seven factors influencing credit creation:

- Reserve ratio: A lower reserve ratio increases credit creation. Higher reserve requirements reduce it.

- Volume of deposits: Larger bank deposits provide a greater base for loan expansion.

- Public confidence: People must trust banks to deposit money instead of hoarding it. Low confidence weakens deposit base and credit creation.

- Demand for loans: High demand for loans in business or household sectors promotes credit expansion.

- Legal framework: Effective enforcement of contracts, collateral recovery, and banking laws facilitates smooth credit operations.

- Banking infrastructure: More branches, mobile banking, and digital platforms widen access and enhance credit distribution.

- Central bank policy: Interest rates, liquidity control tools, and monetary policy stances either encourage or restrict credit expansion.

5. Study the data given in the following table and answer the questions that follow:

Commodities	1994	1995
Exports		
Goods	100000000	50000000
Services	50000000	180000000
Imports		
Goods	90000000	120000000
Services	150000000	100000000
Transfers		
To country	5000000	20000000
From country	10000000	10000000
Capital flows		
Inflow	20000000	350000000
Outflow	30000000	40000000

(a) Calculate the visible balance (Goods exports - Goods imports):

- 1994: 100,000,000 – 90,000,000 = +10,000,000 (Surplus)
- 1995: 50,000,000 – 120,000,000 = -70,000,000 (Deficit)

Interpretation:
In 1994, the country exported more goods than it imported, indicating a positive trade performance. However, in 1995, the country faced a trade deficit due to higher imports than exports, indicating possible overreliance on foreign goods or underproduction locally.

(b) Calculate the invisible balance (Services exports - Services imports):

- 1994: 50,000,000 – 150,000,000 = -100,000,000
- 1995: 180,000,000 – 100,000,000 = +80,000,000

Interpretation:
In 1994, the country was a net importer of services (e.g., tourism, insurance, banking). By 1995, service exports had risen dramatically, reversing the balance to a surplus, possibly due to growth in tourism, ICT, or financial services.

(c) Give three examples of invisible trade:
- Payments for services like tourism, education abroad, or freight.
- Royalties and licensing fees.
- International banking and insurance services.

(d) Calculate net capital inflow (Inflow – Outflow):

- 1994: 20,000,000 – 30,000,000 = -10,000,000
- 1995: 350,000,000 – 40,000,000 = +310,000,000

Example of capital flows:
- Capital inflows: Foreign direct investment, loans from foreign banks.
- Capital outflows: Investment by locals in foreign assets, repayment of foreign loans.

(e) Determine the net transfer and give examples of transfers:
Net Transfer = Transfers to country – Transfers from country
- 1994: 5,000,000 – 10,000,000 = -5,000,000
- 1995: 20,000,000 – 10,000,000 = +10,000,000

Examples of transfers:
- Remittances from citizens abroad.
- Foreign aid and grants.
- Pension payments to residents from foreign institutions.

(f) Calculate the current balance (Goods + Services + Net Transfers):

- 1994: (10,000,000 - 100,000,000 - 5,000,000) = -95,000,000
- 1995: (-70,000,000 + 80,000,000 + 10,000,000) = +20,000,000

Interpretation:
In 1994, the country had a large current account deficit, possibly leading to borrowing or depletion of reserves. In 1995, there was a current account surplus, strengthening the economic position.

(g) Is it always the case that balance of payments accounts must balance? Give a reason for your answer.
Yes, the balance of payments (BoP) always balances in accounting terms because every transaction is recorded as both a credit and a debit. For example, if a country receives foreign investment (credit), it may spend it on imports (debit).

However, while BoP must balance mathematically, individual accounts (like current, capital, or financial) can have deficits or surpluses. Discrepancies are often covered under 'errors and omissions' or reserve adjustments.

6. Analyse six factors which must be considered when choosing a mode of transporting goods.

- Nature of the goods: Perishable goods like fruits or flowers require fast and temperature-controlled transport (like air freight or refrigerated trucks). Heavy or bulky items like coal, machinery, or cement are better suited to rail or marine transport due to their weight and volume.

- Distance to be covered: Long-distance international trade often favors sea or air transport. For short or medium distances within the country, road transport is more practical and flexible, especially where rail or airports are limited.

- Urgency of delivery: If goods need to reach quickly (e.g., medical supplies, spare parts), air transport is preferred despite higher costs. Non-urgent items like furniture can be sent by slower but cheaper means like sea or rail.

- Cost considerations: Road transport may be cheaper for short distances, but rail and sea become more economical for large volumes and long hauls. Businesses must balance cost against delivery time and reliability.

- Availability of infrastructure: In regions with poor roads or no railway lines, options are limited. The presence of ports, airports, and maintained highways directly influences the transport mode chosen.

- Security and risk: Valuable or fragile items require secure and low-risk transport. Air and containerized sea transport offer better protection than open trucks, especially in areas with theft or handling risks.

7. “Public borrowing is a source of government revenue for spending on infrastructure and investment.” Justify this contention by giving six roles played by borrowed funds in the economic development of the developing countries like Tanzania.

- Infrastructure development: Borrowed funds are used to build roads, bridges, dams, power stations, and water systems that stimulate economic activities and connect regions.

- Human capital investment: Loans can fund health and education programs, building hospitals, schools, and training teachers and doctors, which boosts labor productivity in the long term.

- Bridging budget deficits: When tax revenue is low, borrowing enables governments to maintain essential services and avoid disruption of operations.

- Supporting productive sectors: Loans may be directed toward agricultural inputs, subsidizing industries, or promoting tourism and SMEs, generating employment and exports.

- Enhancing foreign exchange reserves: Strategic borrowing in foreign currency can stabilize exchange rates, support imports of machinery, and build reserves for balance of payments stability.

- Stimulating economic growth: Government borrowing during recessions injects money into the economy through public projects, increasing demand, creating jobs, and promoting growth.

8. “Poor infrastructure is one of the major factors which act as a stumbling block in the improvement of the agricultural sector in the Tanzanian economy.” Argue for this contention by giving six points.

- Inadequate rural roads: Many farming areas lack all-weather roads, making it hard to transport produce to markets, especially during the rainy season. This causes delays and loss of perishable goods.

- Lack of storage facilities: Poor infrastructure means farmers lack silos or warehouses to store their produce. This leads to post-harvest losses and forced selling at low prices.

- Limited irrigation systems: Agriculture remains heavily rain-fed due to inadequate investment in irrigation. This makes production seasonal and vulnerable to droughts.

- Unreliable electricity: Many rural areas are not connected to the power grid. Without electricity, farmers can't use modern equipment, process produce, or preserve it through refrigeration.

- Poor communication networks: Lack of access to mobile and internet services hinders farmers from accessing market prices, weather forecasts, or agricultural advice, weakening their bargaining power.

- Weak market infrastructure: Inadequate market centers, auction platforms, and transportation hubs make it difficult for farmers to link directly with buyers, processors, or exporters, limiting profitability.