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: 2022**

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.

Prepared by: Maria Marco for TETEA

1. According to Rostow model of economic development, for a country to have a higher economic growth it must have improvement in technology and new industries. Basing on this model, briefly explain five characteristics of the economic growth in a country.

- Increase in per capita income: Economic growth is reflected in rising national income per person, indicating improved living standards and productive capacity of the population.

- Structural transformation: The economy shifts from being agriculture-based to industrial and service-dominated sectors, showing diversification and modernization.

- Improvement in technology: Economic growth is driven by adoption of advanced production techniques, leading to increased efficiency, output, and competitiveness.

- High levels of savings and investment: A growing economy encourages higher domestic savings, which are reinvested in infrastructure, industries, and human capital, fueling further growth.

- Expansion of markets and trade: Economic growth leads to increased internal and external trade, supported by better transport, communication, and integration into global markets.

2. Tax is the main source of the government revenue. Briefly elaborate the main five components of direct taxes.

- Income tax: Tax charged directly on individual or corporate income. It includes PAYE for salaried workers and corporate tax for companies.

- Capital gains tax: Tax levied on profit made from selling assets such as land, property, or shares.

- Property tax: Imposed on the ownership of physical assets such as buildings and land, usually collected by local governments.

- Inheritance or estate tax: Charged on wealth passed from one person to another through inheritance after death.

- Wealth tax: Levied on the net worth of individuals or entities, considering their total assets minus liabilities, though not common in all countries.

3. (a) Study the table of income distribution:

Quintile	2000 (%)	2010 (%)
Lowest fifth	3.9	5.3
Second fifth	8.6	11.6
Third fifth	13.8	17.5

Fourth fifth	19.3	24.1
Top fifth	54.4	41.5
Total	100.0	100.0

(i) Cumulative Percentages:

Year 2000
Lowest: 3.9
Second: 3.9 + 8.6 = 12.5
Third: 12.5 + 13.8 = 26.3
Fourth: 26.3 + 19.3 = 45.6
Top: 45.6 + 54.4 = 100

Year 2010
Lowest: 5.3
Second: 5.3 + 11.6 = 16.9
Third: 16.9 + 17.5 = 34.4
Fourth: 34.4 + 24.1 = 58.5
Top: 58.5 + 41.5 = 100

(ii) Interpretation:
The Lorenz curve in 2010 shows improvement in income distribution, as the lower 80% earned more than they did in 2000, while the top fifth received a smaller share (41.5% vs 54.4%). This reflects a reduction in income inequality during the decade.

(iii) Five measures to reduce income inequality:
- Progressive taxation: Higher earners pay more taxes to fund social services for the poor.
- Subsidized education: Improves human capital and access to better-paying jobs.
- Social protection: Welfare programs and conditional cash transfers for low-income groups.
- Employment programs: Government projects that create jobs and reduce rural-urban income gaps.
- Support for SMEs: Promotes entrepreneurship and income generation among low-income earners.

4. (a) State the theory of:

(i) Absolute Advantage:
Developed by Adam Smith, it states that a country has absolute advantage if it can produce a good using fewer resources or at a lower cost than another country. It should specialize in producing goods it can make more efficiently.

(ii) Cost Comparative Advantage:
Proposed by David Ricardo, this theory states that a country should specialize in producing and exporting goods it can produce at a lower opportunity cost, even if it has absolute advantage in all goods.

(b) Table for Comparative Advantage:

Country	Maize	Rice
Uganda	120	80
Burundi	40	40

(i) Comparative advantage in maize: Burundi
Opportunity cost of 1 maize:
Uganda: 80/120 = 0.67 rice
Burundi: 40/40 = 1 rice
Lower cost = Uganda → Uganda has comparative advantage in maize.

(ii) Comparative disadvantage in rice: Uganda
Opportunity cost of 1 rice:
Uganda: 120/80 = 1.5 maize
Burundi: 40/40 = 1 maize
Uganda has a higher opportunity cost for rice, so it has a comparative disadvantage.

(iii) Significance of cost comparative advantage:
- Promotes specialization: Countries focus on producing what they are best at, increasing efficiency.
- Encourages trade: Each country benefits by importing goods it cannot produce efficiently.
- Increases total output: Global productivity rises when countries specialize.
- Enhances resource allocation: Factors of production are used in their most productive uses.
- Supports economic growth: Specialization and trade lead to income and employment generation.
- Improves consumer welfare: Access to a wider variety of goods at lower prices.

5. (a) Differentiate the following economic concepts:

(i) Assets of a commercial bank from liabilities of a commercial bank
Assets are resources owned or claims held by the bank that generate income, such as loans given to customers, government securities, and cash reserves. They are economic resources the bank uses to earn profit.
Liabilities are the obligations of the bank to others, such as customer deposits, borrowed funds, and shareholders' capital. These represent funds the bank must repay or is using temporarily.

(ii) Reserve ratio from cash ratio
The reserve ratio is the fraction of total deposits a bank must hold either as cash in its vault or as deposits with the central bank. It ensures banks have enough liquidity to meet withdrawal demands.
Cash ratio specifically refers to the proportion of deposits held strictly in the form of cash (excluding central bank deposits). It reflects the bank’s immediate liquidity position.

(iii) Liquidity ratio from legal reserve requirement

Liquidity ratio is the proportion of a bank's liquid assets (cash, government bonds, etc.) to its total deposits. It shows the bank's ability to meet short-term obligations.
Legal reserve requirement is the minimum percentage of a bank's deposit base that must be kept with the central bank by law. It is a regulatory tool used to control money supply.

(iv) Bank rate from rediscount rate
Bank rate is the interest rate at which the central bank lends money to commercial banks without securities. It affects credit creation and money supply.
Rediscount rate is the rate charged by the central bank when it buys back or rediscounts commercial papers and bills from commercial banks. It's an indirect form of lending through financial instruments.

(v) Solvency from bankruptcy
Solvency is the ability of a bank or firm to meet its long-term liabilities using its assets. A solvent bank has assets greater than liabilities.
Bankruptcy occurs when a firm or bank is unable to meet its financial obligations and liabilities exceed assets. It's a legal state of financial failure.

(b) Table for reserve requirements:

To calculate Loanable Amount = Initial Capital – (Reserve Ratio × Initial Capital)

S/N	Capital (Tshs)	% Reserve	Loanable (Tshs)
1	1,000.00	10.00	900.00
2	2,000.00	20.00	1,600.00
3	3,000.00	15.00	2,550.00
4	4,000.00	15.00	3,400.00
5	5,000.00	10.00	4,500.00
6	6,000.00	10.00	5,400.00
7	7,000.00	20.00	5,600.00
8	8,000.00	20.00	6,400.00
9	9,000.00	10.00	8,100.00
10	10,000.00	10.00	9,000.00

6. "Inefficient system of marketing and distribution of goods and services in the economy make farmers perform poorly." Based on this statement, assess six factors which hinder the efficient running of marketing and distribution of commodities in the Tanzanian economy.

- Poor infrastructure: Inadequate roads and transport systems make it difficult to access markets, especially during rainy seasons. This delays delivery, increases costs, and causes post-harvest losses.

- Limited access to market information: Many farmers lack up-to-date data on prices, demand, or consumer preferences. This results in underpricing or inability to adjust production based on market needs.

- High transaction costs: Farmers face many middlemen, high taxes, packaging costs, and corruption at checkpoints. These costs reduce profit margins and discourage production.

- Weak cooperatives and institutions: Marketing cooperatives often lack proper management or funding, limiting their ability to bulk produce, negotiate fair prices, or provide support to farmers.

- Inadequate storage and processing facilities: Without proper storage or value addition, perishable goods spoil before reaching markets. This reduces farmer earnings and leads to wastage.

- Monopoly power and exploitation: In some areas, few buyers control the market and dictate prices, forcing farmers to sell at low prices without bargaining power.

7. Poor development of the social and economic infrastructures especially in the rural areas is one of the major problems facing planners in the developing countries. Support this argument by giving six points.

- Limited access to health services: Lack of hospitals and clinics in rural areas leads to poor health outcomes, reducing productivity and increasing poverty.

- Inadequate educational facilities: Rural communities suffer from poor schools, lack of teachers, and low literacy rates, limiting human capital development.

- Poor transportation systems: Without good roads and public transport, people and goods cannot move efficiently. This isolates rural areas and discourages investment.

- Lack of communication services: Internet and mobile coverage is poor in many rural regions, hindering access to market information, e-services, and emergency communication.

- Limited water and sanitation: Unreliable water supply and lack of sanitation services lead to health issues, especially in farming communities, and reduce labor efficiency.

- Unreliable electricity: Lack of power supply prevents industrial development, storage of perishables, and use of technology in farming and learning institutions.

8. "The industrial sector plays a significant role in the economic development in Tanzania." In six points, substantiate this contention.

- Creates employment: Industrial activities absorb both skilled and unskilled labor, reducing rural-urban migration and unemployment.

- Promotes value addition: Processing of raw materials (cotton, coffee, cashew) into finished goods increases product value and boosts national income.

- Stimulates exports and forex earnings: Industrial goods are exported, earning foreign exchange that can be used to import machinery, fuel, and other essentials.

- Encourages technology and innovation: Industrialization leads to adoption of better tools, research, and innovation that enhance productivity.

- Increases government revenue: Industries pay corporate taxes, licenses, and contribute to social security funds, boosting public income for development.

- Supports other sectors: Industrial products like fertilizers, tools, and packaging support agriculture, commerce, and services, promoting inter-sectoral linkages.