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: 2023**

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. Diversification of the economy enables a firm to increase chances of employment, inter-sectoral interdependence and make the producer self-sustaining. Basing on this contention, briefly describe five merits of diversification of the economy in the developing countries like Tanzania.

- Employment generation: Diversification into different sectors like manufacturing, tourism, mining, and ICT creates more jobs beyond agriculture. This absorbs surplus labor from rural areas and reduces unemployment.

- Risk reduction: Relying on one sector (like agriculture) makes the economy vulnerable to droughts or price crashes. Diversifying spreads risks across sectors, making the economy more resilient.

- Stimulates industrial development: Diversification into agro-processing, manufacturing, and other industries adds value to raw materials and enhances productivity and exports.

- Increases foreign exchange: Diversified exports such as tourism services, minerals, and processed goods reduce dependency on a single commodity and increase forex earnings.

- Encourages technological advancement: Entering multiple sectors encourages innovation, adoption of modern tools, and efficient use of resources.

2. Resource identification and mobilization during the planning period are of greater significance in the economy. Briefly identify five productive ingredients in a successful planning of the economy.

- Accurate data: Reliable statistics on population, resources, and economic performance guide realistic goal-setting and efficient resource allocation.

- Financial resources: Adequate funding is essential for executing development projects in infrastructure, health, education, and other sectors.

- Skilled human capital: Trained professionals and technical personnel are needed to implement and manage the plan efficiently.

- Political stability and commitment: Government support, clear policies, and commitment from leadership ensure continuity and successful execution of plans.

- Natural resources: Land, water, minerals, and forests must be identified and sustainably utilized as key drivers of production and revenue generation.

3. (a) Use the table to complete and solve:

Income	Consumption	Savings = Income – Consumption
350	335	15

300	290	10	
250	245	5	
200	200	0	
150	135	15	
100	110	-10	

(i) Done above
(ii) Formulate the consumption function using the form: $C = a + bY$
From the table: At income $Y = 200$, $C = 200$
So autonomous consumption $a = 200 – b(200)$

To find b (MPC): Use two points
$b = \Delta C / \Delta Y = (245 – 200)/(250 – 200) = 45/50 = 0.9$
Now substitute back:
$200 = a + 0.9(200) \rightarrow 200 = a + 180 \rightarrow a = 20$
So, consumption function: $C = 20 + 0.9Y$

(iii) If savings = 25, then $Y – C = 25 \rightarrow$
Using $C = 20 + 0.9Y \rightarrow Y – (20 + 0.9Y) = 25$
$Y – 0.9Y – 20 = 25 \rightarrow 0.1Y = 45 \rightarrow Y = 450$

(b) Explain five factors which influence the level of savings in the economy.

- Income level: Higher incomes allow households to meet needs and save the surplus, while low-income earners focus on survival.

- Interest rates: High interest rates on savings encourage people to deposit money in banks to earn more returns.

- Inflation: If inflation is high, people are discouraged from saving as the value of money erodes over time.

- Cultural and social factors: Some societies emphasize saving and investment, while others focus more on consumption.

- Government policies: Tax incentives, pension schemes, and financial literacy programs can encourage saving behavior.

4. (a) Tax rate and payable tax calculations:

Month	Income	% Rate	Payable Tax
January	850,000.00	14	119,000.00
February	1,200.00	18	216.00

March	1,000.00	16	160.00
April	600.00	17	102.00
May	760.00	12	91.20
June	1,400,500.00	20	280,100.00
July	540.00	15	81.00
August	720.00	16	115.20
September	2,000.00	16	320.00
October	1500.00	14	210.00

(b) Explain five implications in each of the following forms of budgets:

(i) Surplus budget:
- Government collects more revenue than it spends.
- Useful for reducing inflation through reduced spending.
- Can be used to repay national debt.
- Reduces public borrowing and interest burden.
- May lead to underinvestment in public services if misused.

(ii) Deficit budget:
- Government spending exceeds revenue, often financed through borrowing.
- Stimulates economic growth in times of recession.
- Can lead to inflation if not managed.
- Increases national debt and interest payments.
- May crowd out private investment if borrowing dominates financial markets.

5. (a) Suppose in the Tanzanian economy from 2010 to 2015, the export price index increased from 100 to 190 while the import price index increased from 100 to 180:

(i) Identify the base and current year.
The base year is 2010 (where price indices = 100) and the current year is 2015 (with updated indices of 190 for exports and 180 for imports).

(ii) Calculate the terms of trade during the period.
Terms of Trade (ToT) = (Export Price Index / Import Price Index) × 100
ToT = (190 / 180) × 100 = 105.56

(iii) Give the economic interpretation of the value obtained in (a)(ii).
The ToT value of 105.56 means that for every 100 shillings worth of imports, Tanzania is able to export goods valued at 105.56. This is a favourable terms of trade, indicating improved purchasing power of exports — the country earns more from what it sells than it spends on what it buys. This can lead to improved national income, higher foreign exchange reserves, and reduced trade deficits.

(b) Briefly describe six factors which lead into the deteriorating terms of trade in the economies of developing countries such as Tanzania.

- Dependence on primary exports: Most developing countries export raw materials which have low and unstable prices in the world market. Over time, these prices fall compared to manufactured goods, worsening ToT.

- Weak bargaining power: Developing countries often accept low prices for exports due to limited market options or poor trade negotiation strength, leading to long-term unfavourable trade terms.

- Import of expensive manufactured goods: Countries like Tanzania rely heavily on importing machinery, electronics, and refined products, which have rising prices. This imbalance worsens the ToT.

- Global price shocks: Sudden drops in the global prices of commodities like coffee, cotton, or minerals reduce export earnings while import costs remain high, leading to deterioration.

- Trade liberalization and unequal agreements: Some trade policies or agreements favour developed countries, exposing developing countries to unfair competition and exploitation in pricing.

- Decline in productivity and quality: If exports are of poor quality or face declining production levels, they fetch lower prices internationally, while import prices stay high.

6. Land transport facilitates mass production of goods since it ensures market for the goods produced. In six points, account for the contribution of land transport to the Tanzanian economy.

- Enhances trade and market access: Road and rail networks connect rural producers to urban markets, enabling the flow of goods and services. Farmers and manufacturers can sell their produce easily and on time.

- Reduces post-harvest losses: Efficient land transport ensures perishable goods like fruits and vegetables reach markets before spoiling, reducing waste and increasing farmer income.

- Promotes industrial development: Industries need steady supplies of raw materials and outlets for finished goods. Transport allows movement of inputs and distribution of outputs, supporting manufacturing growth.

- Stimulates rural development: Improved roads lead to increased access to education, health, and economic opportunities in rural areas, encouraging balanced regional development.

- Employment creation: The transport sector creates direct jobs (drivers, mechanics, road workers) and indirect jobs in logistics, fuel stations, and roadside businesses.

- Revenue generation: Land transport contributes to government income through taxes, vehicle registration, tolls, and fuel levies, which can be reinvested in infrastructure.

7. “One of the major problems facing the commercial banks in the developing countries is lack of collateral security to most borrowers.” Substantiate this quotation by giving six problems faced by the commercial banks in the Tanzanian economy.

- Lack of collateral: Many borrowers, especially small-scale farmers and entrepreneurs, lack formal land titles or fixed assets to use as security, making banks unwilling to lend.

- High default rates: Due to economic instability or poor financial discipline, borrowers may fail to repay loans, leading to non-performing loans and banking losses.

- Limited rural outreach: Many commercial banks are concentrated in urban areas, leaving large populations in rural Tanzania without access to financial services.

- Low financial literacy: A significant portion of the population lacks knowledge on banking services, interest rates, loan management, and financial planning, making them risky clients.

- High operating costs: Maintaining branches, ensuring security, and managing cash in remote areas increases operational costs for banks, reducing profitability.

- Regulatory challenges: Strict banking regulations, high capital requirements, and bureaucracy sometimes limit banks’ flexibility and innovation in loan structuring or financial product development.

8. “Private sector promotes the increase in efficiency in the economy.” Justify this statement by giving six advantages of the private sector in the economy.

- Efficient resource allocation: The profit motive encourages private firms to minimize costs and use resources effectively. This reduces wastage and increases productivity.

- Innovation and technology: Competition in the private sector pushes firms to innovate, adopt new technologies, and improve product quality and service delivery.

- Job creation: Private investments in industries, services, and agriculture generate employment opportunities, especially in urban areas and growing towns.

- Government revenue: Through taxes (corporate tax, PAYE, VAT), the private sector provides significant revenue to the government for public services and infrastructure.

- Fills investment gaps: The private sector mobilizes domestic and foreign investment in areas where the government lacks capacity, such as housing, transport, and telecommunications.

- Customer choice and service: With multiple firms in the market, consumers benefit from a variety of products, competitive prices, and improved service standards.

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