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: 2024**

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. Distinguish between the following economic concepts:

(a) Tax evasion from tax avoidance

Tax evasion is the illegal act of deliberately not paying taxes by underreporting income or falsifying records. Tax avoidance is the legal use of tax laws to minimize tax liability through loopholes or deductions.

(b) Money burden of tax from real burden of tax

Money burden of tax refers to the actual amount of money paid as tax. Real burden refers to the reduction in purchasing power or welfare due to tax, including indirect effects like increased prices or reduced consumption.

(c) Ad-Valorem tax from specific tax

Ad-Valorem tax is charged as a percentage of the value of a good, e.g., 18% VAT. Specific tax is a fixed amount charged per unit of a good, regardless of price, e.g., 500 shillings per litre of petrol.

(d) Capital gain tax from capital levy tax

Capital gain tax is imposed on profit earned from the sale of an asset such as land or shares. Capital levy tax is a one-time tax imposed on the capital of individuals or businesses, usually for redistributive purposes.

(e) The incidence of a tax from formal incidence

The incidence of a tax refers to who actually bears the burden of the tax after market adjustments. Formal incidence refers to who is legally responsible for paying the tax to the government.

2. “Planning is essential to make a proper use and allocation of scarce resources in the economy.” Briefly elaborate the five main characteristics of the comprehensive plan.

- Clearly defined objectives: Planning must outline economic, social, and development goals.

- Central coordination: A central authority coordinates activities across sectors and regions.

- Long-term perspective: Plans cover future periods, often 5–10 years, to ensure sustainability.

- Resource allocation: Prioritizes the use of scarce resources to sectors that yield the most benefit.

- Flexibility: A good plan allows adjustments when there are economic or political changes.

3. (a) Use the table to compute:

Particulars	Tshs.
Gross National Product (GNPmp)	18000.00
Capital Consumption	800.00
Indirect Tax	400.00
Subsidies	360.00
Personal Income Tax	700.00
Inflow of Capital from abroad	50.00
Government Transfers	800.00
Outflow of Capital to abroad	70.00

(i) Depreciation = Capital Consumption = 800.00

(ii) GDPmp = GNPmp – Net Factor Income from Abroad (NIFA)

NIFA = Inflow – Outflow = 50 – 70 = -20

GDPmp = 18,000 – (-20) = 18,020

(iii) NNPfc = GNPmp – Depreciation – Indirect Tax + Subsidies

= 18,000 – 800 – 400 + 360 = 17,160

(iv) NIFA = -20 → Negative, meaning more income is flowing out than coming in.

Comment: The country is a net payer to foreign entities, which can reduce domestic income levels and affect balance of payments.

(b) Examine six problems encountered when determining national income by expenditure method:

- Incomplete data: Some expenditures like informal sector spending are not recorded.

- Double counting: Difficulty in avoiding duplication of expenditure values.

- Non-market activities: Home production or barter exchange is hard to value.

- Transfer payments: Government transfers like pensions are not included but may be miscounted.

- Illegal activities: Black market transactions go unreported.

- Changing prices: Inflation distorts the value of expenditure over time.

4. (a) Terms of Trade = (Price Index of Exports / Price Index of Imports) × 100

S/N	Px	Pm	ToT
1	115	110	104.5
2	120	115	104.3
3	130	120	108.3
4	90	110	81.8
5	80	95	84.2
6	110	125	88.0

(b) Terms of trade are said to be favourable when ToT > 100, meaning export prices rise relative to import prices.

They are unfavourable when ToT < 100, meaning the country pays more for imports than it earns from exports.

(c) Six favourable terms of trade vs. unfavourable:

- Favourable: Improve national income, support surplus, lower foreign debt, boost reserves, raise currency value, attract investment.

- Unfavourable: Worsen balance of payments, reduce income, force borrowing, increase poverty, depreciate currency, hinder development.

(d) No, favourable terms of trade do not always imply favourable balance of trade. A country may have high export prices but still import more in quantity or value, leading to a deficit in trade balance.

5. (a) If Bank of Tanzania reduces discount rate from 12% to 10%, possible economic effects:

- Increases credit creation: Commercial banks borrow more from the central bank.

- Reduces cost of borrowing: Encourages firms and individuals to take loans.

- Increases money supply: More money circulates in the economy.

- Stimulates investment and consumption.

- May lead to inflation if overdone.

(b) Five differences and three similarities between central and commercial banks:

Differences:

- Central bank controls money supply; commercial banks deal with customers.

- Central bank issues currency; commercial banks do not.

- Central bank regulates banks; commercial banks operate under regulations.

- Central bank manages national reserves; commercial banks manage deposits.

- Central bank is not profit-oriented; commercial banks are.

Similarities:

- Both handle monetary transactions.

- Both influence credit creation.

- Both can affect economic activity.

6. “The marketing boards help farmers to sell agricultural products at the best possible agreed prices provided they meet the specifications laid down by the board.” In six points, evaluate the contribution of the marketing boards in the Tanzanian economy.

- Price stabilization: Marketing boards protect farmers from extreme price fluctuations by setting guaranteed minimum prices or offering price support. This helps farmers plan production and ensures stable income, especially during periods of market uncertainty or price crashes.

- Assured market access: By acting as intermediaries, marketing boards provide reliable markets for farmers' produce. In remote or underdeveloped areas where private buyers are absent, they ensure farmers can sell their products without being exploited.

- Standardization and quality control: Marketing boards enforce quality standards and grading systems. This increases the competitiveness of Tanzanian products in both domestic and international markets, enhancing reputation and opening up export opportunities.

- Farmer empowerment and training: Many marketing boards offer education on best agricultural practices, storage, pricing, and marketing. This builds farmers' capacity to produce and sell more efficiently, raising productivity and income.

- Revenue generation for government: Through export and domestic sales of agricultural products, marketing boards contribute to national revenue. They facilitate taxation, formalize trade, and reduce losses from smuggling or black-market sales.

- Development of infrastructure: Marketing boards often invest in storage facilities, transport networks, and rural processing centers. These developments reduce post-harvest losses, improve market efficiency, and stimulate rural development.

7. “Economic development involves an increase in gross national product and improvement in the welfare of the people.” Substantiate this quotation by giving six indicators of economic development in the Tanzanian economy.

- Increase in GDP per capita: A growing Gross Domestic Product (GDP) per person reflects overall national productivity and income growth, which is a direct indicator of economic development.

- Decline in poverty rates: Economic development reduces absolute and relative poverty through improved job creation, increased wages, and access to social services. Tanzania has implemented poverty reduction programs aimed at lifting people out of poverty.

- Diversification of the economy: As development progresses, Tanzania moves from dependence on agriculture to increased industrial and service sector contributions. This structural transformation reduces vulnerability and supports sustainable growth.

- Improvement in infrastructure: Expansion of roads, electricity, water supply, and telecommunications across urban and rural areas signifies development and promotes economic activities.

- Better health and education: Improvements in literacy rates, life expectancy, and healthcare access indicate enhanced welfare of the population. The government’s investments in health and education reflect these development priorities.

- Growth in industrial output and exports: An increase in value-added production and export earnings from manufactured or processed goods shows integration into the global economy, which supports development.

8. “Large scale farming of cash crops promotes the increase in efficiency and standard of leaving of the people in the economy.” Justify this statement by giving six advantages of cashew nuts production in the Tanzanian economy.

- Employment creation: Cashew nut farming and processing provide jobs in rural areas, especially for women and youth, both on farms and in processing plants. This reduces unemployment and increases household incomes.

- Foreign exchange earnings: Cashew nuts are a major export crop. Exporting them earns foreign currency, which strengthens the country's reserves and supports imports of essential goods.

- Industrial development: Processing cashew nuts locally stimulates agro-processing industries, reduces raw export dependency, and adds value. This encourages investment in machinery and packaging sectors.

- Rural development: Cashew nut farming improves the living standards of rural populations by generating steady income and encouraging infrastructure development like roads, schools, and health centers.

- Government revenue: Through export taxes, processing licenses, and levies, cashew production contributes to government income, enabling more investment in public services.

- Economic diversification: Promoting cashew production reduces overdependence on traditional crops like maize or coffee and opens new trade partnerships, boosting national economic resilience.