THE UNITED REPUBLIC OF TANZANIA

NATIONAL EXAMINATIONS COUNCIL

ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

151/2 **ECONOMICS 2**

(For Both School and Private Candidates)

Duration: 3 Hours **ANSWERS** **Year: 2025**

Instructions

1. This paper consists of sections A, B and C with a total of **eight (8)** questions.
2. Answer **all** questions in section A and choose **two (2)** questions from each of sections B and C
3. Section A carries **twenty (20)** marks, section B and C carry **forty (40)** marks each.
4. Non-programmable calculator may be used.
5. All writing must be in blue or black ink, except drawings which must be in pencil
6. Communication devices and any unauthorised materials are **not** allowed in the examination room.
7. Write your **Examination Number** on every page of your answer booklet(s).

SECTION A (20 Marks)

Answer all questions from this section.

1. (a) Differentiate the development plan from the Economic plan.

A development plan is a comprehensive long-term strategy that outlines a country's objectives and programs aimed at achieving social and economic progress, focusing on education, health, and infrastructure.

An economic plan, on the other hand, deals specifically with resource allocation, production, and distribution in order to achieve economic targets such as growth, employment, and stability within a specified time frame.

(b) Distinguish between the Imperative plan and the Indicative plan.

An imperative plan is a compulsory type of plan where the government directly controls and dictates the production targets, prices, and distribution of goods and services.

An indicative plan provides guidelines and incentives to private and public sectors without compulsion, allowing flexibility and voluntary participation in achieving national goals.

(c) Compare Plan machinery and Plan appraisal.

Plan machinery refers to the institutional setup and administrative bodies responsible for formulating, implementing, and monitoring a national plan.

Plan appraisal is the evaluation process that examines the performance, efficiency, and effectiveness of the implemented plan to determine if objectives were achieved.

(d) Differentiate between a Centralized plan and a Decentralized plan.

A centralized plan is one where decision-making authority is concentrated at the national or central government level, ensuring uniformity and coordinated control.

A decentralized plan distributes decision-making powers to regional or local authorities, allowing for flexibility and adaptation to local needs and conditions.

(e) Identify the distinctions between a Socialist plan and a Capitalist plan.

A socialist plan is government-directed, emphasizing collective ownership of resources and prioritizing social welfare over profit.

A capitalist plan relies on market forces, private ownership, and profit motives, with minimal government interference in production and distribution decisions.

2. According to Harrold Domar Growth Model, economic growth is independent from the level of national savings and productivity of capital investment. Explain briefly the limitations of this model.

The model assumes a fixed relationship between capital and output, ignoring technological progress and efficiency improvements.

It overemphasizes the role of savings and investment while neglecting other factors like human capital and natural resources.

The model assumes constant returns to scale, which is unrealistic in developing economies where productivity can vary significantly.

It ignores the influence of government policies, external trade, and inflation on economic growth.

It assumes that all savings are automatically transformed into investments, which may not always hold true due to financial inefficiencies.

It also disregards population growth and changes in labor productivity that can affect long-term growth rates.

SECTION B (40 Marks)

Answer two (2) questions from this section.

3. (a) You have provided with income function of two sector model of $Y = C + I$ and consumption function of $C = a + bY$. Derive the investment multiplier.

Substituting the consumption function into the income function gives:

$Y = a + bY + I$

$Y - bY = a + I$

$Y(1 - b) = a + I$

Therefore, $\Delta Y = (1 / (1 - b))\ \Delta I$

The investment multiplier $(K) = 1 / (1 - b)$

(b) You are given the data of country X. Calculate the change of National Income in the economy.

Assuming the marginal propensity to consume (b) and change in investment (ΔI) are known,

Change in income $\Delta Y = K \times \Delta I$

Substitute the given data accordingly to find the national income change.

(c) Elaborate six factors that determine the level of savings in the economy.

Income level influences savings because higher income earners can save more after meeting basic needs.

Interest rates affect savings since higher rates encourage people to save more for future benefits.

Cultural attitudes play a role where societies that value thrift tend to have higher saving rates.

Availability of financial institutions influences savings because accessible banks and cooperative societies make saving easier.

Government policies such as tax incentives and social security systems can encourage or discourage saving.

Economic stability determines saving habits, as people save more during stable periods and less during uncertainty.

4. (a) Fill the blanks in the following table by finding the value of goods when VAT is inclusive and the value of goods when VAT is exclusive.

S/N	Actual Value	VAT %	VAT Inclusive (Value + VAT)	VAT Exclusive (Value - VAT)
1	1000	20	1200	833.33
2	1200	18	1416	1016.95
3	1300	16	1508	1120.69
4	1400	19	1666	1176.47
5	1500	17	1755	1282.05
6	2000	19	2380	1680.67
7	2800	20	3360	2333.33
8	2600	17	3042	2222.22
9	2700	18	3186	2288.14
10	2900	16	3364	2500

(b) Provide the reasons on why do consumers suffer from a price increase when demand is inelastic but benefit from price reduction when demand is elastic.

When demand is inelastic, consumers must buy the product even at a higher price because substitutes are few or unavailable, leading to increased expenditure.

When demand is elastic, consumers can easily switch to alternatives; hence, when prices fall, they buy more and enjoy greater satisfaction at lower cost.

(c) Provide reasons why consumers abandon the consumption of the commodity when the demand is perfectly elastic but are forced to continue consuming the commodity when demand is perfectly inelastic.

Under perfectly elastic demand, even a small price increase causes consumers to stop buying completely since substitutes exist at the same price.

When demand is perfectly inelastic, consumers have no substitutes and must continue buying despite price increases, as seen with necessities like medicine.

(d) Justify whether it is true that tax incidence always falls on the consumer.

It is not always true because tax incidence depends on price elasticity of demand and supply.

If demand is inelastic, consumers bear most of the tax burden.

If supply is inelastic, producers bear a larger portion of the tax.

5. (a) You are given the following data: Initial deposit = 10,000.00 Tsh, Cash ratio is 20%. You are required to calculate total credit created when three commercial banks are involved in the process.

Bank 1: Loans out 80% of 10,000 = 8,000

Bank 2: Loans out 80% of 8,000 = 6,400

Bank 3: Loans out 80% of 6,400 = 5,120

Total credit created = 10,000 + 8,000 + 6,400 + 5,120 = 29,520 Tsh

(b) Differentiate commercial bank assets from commercial bank liabilities.

Assets are resources owned by the bank that generate income, such as loans and investments.

Liabilities are obligations the bank owes to others, such as customer deposits and borrowings.

(c) Describe briefly five factors which limit the process of credit creation by commercial banks.

Cash reserve ratio determines how much banks must keep, limiting available funds for lending.

Public demand for cash withdrawals reduces funds available for loans.

Availability of creditworthy borrowers affects the lending potential.

Central bank regulations can restrict or expand credit creation.

Economic conditions such as inflation or recession influence borrowing and lending behavior.

SECTION C (40 Marks)

Answer two (2) questions from this section.

6. Domestic and international trade are two sides of the same commercial transactions. Analyse the differences between domestic and international trade.

Domestic trade involves buying and selling within a country's borders, while international trade occurs between different countries.

Domestic trade uses the same currency, but international trade involves foreign exchange and currency conversion.

Domestic trade faces fewer restrictions, whereas international trade is regulated by tariffs, quotas, and trade agreements.

Transportation and communication costs are lower in domestic trade but higher in international trade due to distance.

Cultural and legal differences are minimal in domestic trade but significant in international trade.

Domestic trade directly contributes to national GDP, while international trade affects the balance of payments and foreign reserves.

7. Evaluate six contributions of small-scale industries in the development of the economy of Tanzania based on the statement "Industrialization facilitates the process of transforming raw materials into capital and final consumer goods."

Small-scale industries create employment opportunities for local populations, reducing poverty.

They utilize locally available raw materials, reducing import dependence.

They promote entrepreneurship and innovation through self-employment and creativity.

Small industries contribute to regional development by spreading economic activities to rural areas.

They help in foreign exchange saving by producing goods that substitute imports.

They encourage linkages between large and small industries, enhancing industrial integration.

8. Examine factors to be considered when choosing the mode of transport.

Nature of goods determines the choice; perishable items require faster transport like air, while bulky goods use sea or rail.

Cost of transport influences the decision since businesses choose the most economical option.

Distance between origin and destination determines whether road, air, or sea transport is appropriate.

Urgency of delivery matters; urgent goods require faster but costlier modes.

Infrastructure availability like ports, roads, and airports affects the mode used.

Safety and reliability are important to avoid loss or damage of goods during transit.