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## SENIOR FIVE TERM 1

### TOPIC 1/2: Introduction to Economics

#### Definitions of economics

**Economics** is concerned allocation of scarce resources to satisfy human endless needs. It deals with the ways in which production, distribution and consumption of goods and services change over time to satisfy human needs.

#### Key areas of study

**Microeconomics:** Focuses on the behavior of individual economic units like households, firms, and industries, and how they interact in markets.

**Macroeconomics:** Analyzes the economy as a whole, looking at broad issues such as inflation, unemployment, economic growth, and monetary and fiscal policy.

#### Core concepts

- **Scarcity:** The fundamental economic problem of having seemingly unlimited human wants in a world of limited resources.
- **Incentives:** How people and firms respond to rewards and penalties, and how these responses drive economic behavior.
- **Resource allocation:** The study of how limited resources are distributed among competing uses to satisfy wants and needs.

#### Skills developed

- **Analytical and problem-solving skills:** Economics develops the ability to use logic and data to solve complex problems.

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- **Mathematical and statistical skills:** The field often requires a strong foundation in mathematics and statistics to build and test models.
- **Critical thinking:** Students learn to analyze trends, interpret data, and understand the ripple effects of choices and events.

### Applications

- **Business:** Understanding market dynamics, firm behavior, and strategic decision-making.
- **Government and policy:** Advising on public policy, taxation, and the regulation of markets.
- **Finance:** Analyzing financial markets, investments, and economic forecasting.
- **Other fields:** The skills learned are transferable to many areas, including behavioral science, psychology, and international relations.

### Reasons for studying economic

#### 1. Understanding the world

- (i) Economics helps us to understand how society allocates scarce resources, which helps us analyze complex issues like poverty, inflation, and government policies.
- (ii) Economics provides tools to understand and address major challenges like climate change, inequality, unemployment and geopolitical tensions.
- (iii) It helps make sense of how markets work, how companies operate, and how individual and government decisions impact everyday life.
- (iv) It offers insights into international trade, cultural interactions, and the economic relationships between different societies.
- (v) It helps students appreciate the role of planning both for the present and future generations.

#### 2. Developing valuable skills

- (i) **Enhance critical thinking:** It trains you to question information, analyze statistics, identify potential biases, and understand the incentives behind human behavior.
- (ii) **Improve problem-solving:** Economics is fundamentally about solving problems, which leads to skills that are highly valued in any profession.

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(iii) **Build analytical and research skills:** It strengthens your ability to research and analyze data, a skill useful in many different fields.

### 3. Expanding career opportunities

(i) **Diverse job market:** An economics degree opens doors to a vast number of careers in fields such as accounting, banking, consulting, finance, and government.

(ii) **Preparation for further study:** It serves as a strong foundation for graduate programs in economics, business, and law.

(iii) **Adaptability:** The skills gained are flexible and transferable, preparing graduates to adapt to and succeed in an ever-changing job market.

### Positive and Normative economics

**Positive Economics:** This branch of economics deals **with what is**. It involves the analysis of facts and cause-and effect relationship in economy.

**Positive economics** aims to describe and explain economic phenomena based on empirical data and observable facts. For example, a statement like "An increase in the minimum wage leads to higher unemployment among teenagers" is a positive economic statement because it can be tested and verified through data.

**Normative Economics:** In contrast, normative economics addresses **what ought to be**. It involves value judgments and opinions about economic policies and outcomes.

Normative statements are prescriptive and cannot be tested or proven true or false. An example would be "The government should increase the minimum wage to reduce poverty," which reflects a belief about what should happen based on ethical considerations.

### Key Differences

#### 1. Nature of Statements:

- Positive economics makes **testable statements** based on facts and data.
- Normative economics involves **value-based statements** that reflect opinions or beliefs.

#### 2. Objective vs. Subjective:

- Positive economics is **objective** and focuses on factual analysis.
- Normative economics is **subjective** and incorporates personal or societal values.

### Examples:

#### Positive:

- "The inflation rate is currently 3%."
- "Increasing the minimum wage has led to a decrease in low-skilled jobs"

#### Normative:

- "The inflation rate should be kept below 2% to ensure economic stability."
- "The government should raise the minimum wage"

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- "Inflation is too high and the government should take steps to lower it"

### Importance in Economics

Understanding the distinction between positive and normative economics is crucial for effective economic analysis and policy-making

**Positive economics** provides the foundation for understanding how the economy operates, while normative economics guides decisions about what policies should be implemented based on societal values and goals. Both branches are complementary and necessary for a comprehensive understanding of economic issues.

**Wealth** refers to the stock of assets and other resources existing in an economy at a given time that can be measured in terms of either real goods or money value and can be used to generate more income.

#### Characteristic of Wealth

1. It is relatively scarce. That is, it is limited in supply,
2. It provides satisfaction (utility)
3. It has money value. That is, it has price.
4. Wealth can be used to produce more wealth.
5. The ownership of wealth is transferable, That is, it can be exchanged.

#### Broader view of wealth

**Holistic framework:** The concept of wealth can be expanded beyond material possessions to include a more holistic view that includes natural resources, social capital, and human capital (the value of skills and knowledge).

**Societal role:** The "wealth economy" framework considers how the use and control of these various forms of capital can lead to prosperity and how they are interconnected.

An **economic want** is a desire for goods and services that **requires money and scarce resources to satisfy**. These wants are distinct from non-economic wants, which can be fulfilled without monetary cost, like sunshine or love.

Examples of economic wants include food, cars, and education, and they are often classified as necessities, comforts, or luxuries.

#### Characteristics of economic wants

- (i) **Desire for goods and services:** These are things people want to buy or consume.
- (ii) **Requires monetary value:** To satisfy an economic want, money is typically needed to purchase the good or service.

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- (iii) **Uses scarce resources:** Since resources are limited, people cannot satisfy all their economic wants and must make choices.
- (iv) **They** are recurrent (endless)
- (v) They are competitive in nature
- (vi) They are dynamic, that is, they keep on changing from time to time
- (vii) They are complementary, that is, they are jointly used for example car and fuel.
- (viii) **Can be categorized:** Economic wants can be further broken down into different types based on their importance:
  - **Necessities:** Essential for survival and basic efficiency, like food, clothing, and shelter.
  - **Comforts:** Things that make life easier or more enjoyable after basic needs are met, such as air conditioning or a high-quality mattress.
  - **Luxuries:** Items that provide enjoyment and are sought after based on a person's standard of living, such as designer clothing or a luxury car.

### Examples

- **Basic food** is a necessity, but **gourmet meals** or **specialty coffee** are considered wants.
- **Basic, protective footwear** is a need, while **stylish or branded sneakers** are wants.
- **A mobile phone** is a want for communication and convenience, which has become more of a necessity over time.

### The fundamental economic questions

The economic questions influence resource allocation. They include;

1. **What to produce?** This question deals with which goods and services society will create. That is, the nature of the commodity to be produced. Whether capital or consumer goods, for export or for domestic consumption etc.
2. **How to produce?** This question concerns the methods and resources used for production. Should production rely heavily on human labor, advanced machinery, or a combination of both?
3. **For whom to produce?** This question addresses the distribution of the goods and services that are produced. That is, the nature of consumers who are to consume the products.
4. **When to produce?** Addresses the time of production; that is, the period or season of production, whether to produce now or in future.
5. **Where to produce from?** Address the place; that is, the location of the business, whether to produce near the source of the raw materials or near the market

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## Categories of Goods

### (i) Based on production and use

- **Consumer Goods:** Products bought by individuals for personal use and satisfaction, such as food, clothing, and electronics.
- **Capital Goods:** Goods used by businesses to produce other goods and services, like machinery and raw materials.
- **Intermediate Goods:** Goods used as an input in the production of other goods, such as steel used to make cars.
- **Final Goods:** Goods that are ready for consumption or use, which have already been accounted for as either consumer or capital goods.

### (ii) Based on monetary value

- **Free goods:** these are goods which exist naturally in abundance such that one's desire can be satisfied at zero prices. For example, water, sunshine, air, etc.
- **Economic goods** these are goods which are relatively scarce as compared to human wants and their consumption involves a cost.

### (iii) Based on rivalry and excludability

- **Private Goods:** Goods that are both rivalrous (one person's consumption prevents another's) and excludable (it's possible to prevent non-payers from consuming them).
- **Public Goods:** Goods that is non-rivalrous and non-excludable, such as national defense or clean air.
- **Common Resources:** Goods that is rivalrous but non-excludable, like fish in the ocean.
- **Club Goods:** Goods that are non-rivalrous but excludable, such as cable TV or private parks.

### (iv) Based on income and price elasticity

- **Normal Goods:** Demand increases as consumer income increases.
- **Inferior Goods:** Demand decreases as consumer income increases; they are often replaced by more desirable alternatives as income rises.
- **Luxury Goods:** Demand increases disproportionately as income rises.
- **Giffen Goods:** A rare type of inferior good where demand increases as the price rises, violating the law of demand.

### (v) Based on relationship to other goods

- **Substitute Goods:** Goods that can be used in place of each other (e.g., butter and margarine).
- **Complementary Goods:** Goods that are consumed together (e.g., coffee and sugar).

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#### (vi) Based on social value

- **Merit Goods:** Goods that are considered beneficial for society, which governments may encourage consumption of (e.g., education).
- **Demerit Goods:** Goods that are considered harmful to society, which governments may discourage consumption of (e.g., tobacco).

(vii) **Services;** these are intangible items used to facilitate the production of goods and services. For example banking services, transport services, services of a teacher.

#### Characteristics (Features) of economic goods

- Scarcity:** The supply of economic goods is limited relative to the demand for them. This scarcity creates the need for choices and trade-offs in an economy.
- Utility:** They provide satisfaction or usefulness to consumers, which is a key driver of their value.
- Transferability:** Economic goods can be exchanged or transferred from one person to another, enabling trade and specialization.
- Monetary Value/Price:** They have a price or monetary value because they are not freely available and are the result of human effort or resources.
- Requires Human Effort:** The production of economic goods involves labor, capital, and other resources, distinguishing them from "free goods" that exist in unlimited supply.
- Excludability:** The ability to prevent someone who has not paid for a good from using it. For **example**, a car is excludable because you must pay for it to own and use it.
- Rivalry:** The characteristic where one person's consumption of a good reduces its availability for others. For example, the consumption of a single slice of pizza is rivalrous.

#### Characteristics (Features) of public goods

- They are **non-divisible**, that is, they are equally available to all individuals in society
- **Non-excludability:** that is, **once** a public good is provided, it is difficult or impossible to prevent individuals from benefiting from it. **For example**, everyone in a city can benefit from streetlights, regardless of whether they pay taxes that fund them.
- **Non-rivalry i.e.**, The consumption of a public good by one person does not diminish the amount available for others to consume.
- **Simultaneous use:** The good can be used by multiple people at the same time without its quality or availability being affected. **For example:** One person listening to a public radio broadcast does not prevent others from listening to the same broadcast.
- Their **consumption does** not involve a direct cost.

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- **Often government-provided:** Because of the free-rider problem, these goods are typically provided or funded by the government through taxation. For **examples**, national security and law enforcement.
- **Large-scale provision:** Public goods are often provided on a large scale, benefiting a wide range of consumers.

### Basic (fundamental) economic problems (principles)

There are three fundamental economic problems (principles). These include scarcity, choice and opportunity cost

- Scarcity.** This arises because human wants are unlimited but the resources available to satisfy those wants are limited. Due to scarcity, every society must make choices about how to allocate its resources to meet some of the wants.
- Choice** is the act of selecting one option from many alternatives, driven by the fundamental concept of scarcity, where limited resources must be allocated to satisfy unlimited wants. Because not all desires can be fulfilled, individuals, businesses, and governments must make trade-offs, leading to the concept of opportunity cost.
- Opportunity (Real) cost;** this refers to the value of the second best alternative foregone when choice is made basing the available scarce resources. For example if an individual has 100,000/= and she wants to buy two commodities X and Y whereby the price for X is 100,000/= and the price Y is 150,000/=. If he buys commodity X using all his money, she foregoes the value of commodity Y which is worth 150,000/=

### Some uses (importance/applications) of the concept of opportunity cost

In general, Opportunity cost is used to make better decisions by comparing the value of the chosen option against the value of the next-best alternative.

Specific examples include:

#### Personal life

- Time management:** Deciding between different activities, like spending an hour studying versus working a part-time job, involves the opportunity cost of the forgone wages.
- Consumer choices:** Choosing to spend money on a vacation means those funds cannot be used for other purchases or investments.
- Career choice:** Pursuing further education can have the opportunity cost of lost income during the period of study.

#### Business

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- (i) **Resource allocation:** Businesses use opportunity cost to decide how to best use limited resources like capital and labor on different projects or tasks. For example, allocating senior accountants to routine work means they are unavailable for strategic analysis, and the opportunity cost is the value of that delayed strategic work.
- (ii) **Investment decisions:** When evaluating two projects, a company considers the potential return of the chosen project against the potential return of the one it had to forgo.
- (iii) **Production:** A factory might decide to produce cars or trucks. The opportunity cost of producing one more car is the number of trucks that could have been produced instead, which helps in efficient resource use.
- (iv) **Inventory management:** Holding too much inventory ties up capital, while holding too little risks stockouts. The optimal level balances the opportunity cost of tied-up capital against the cost of lost sales.

### Economics

- (i) **Comparative advantage:** The theory of comparative advantage states that countries should specialize in producing goods and services that they can produce with the lowest opportunity cost and then trade for other goods.
- (ii) **Cost of capital:** Understanding the opportunity cost of capital is crucial for investment and financial decisions.
- (iii) **Production possibilities:** The concept helps illustrate the trade-offs in production and how resources are allocated in an economy.

### Limitations of the concept of opportunity cost

- (i) The concept is not useful for specific factors of production or resources that have only one possible use, as there is no alternative cost.
- (ii) In situations with multiple options, it can be challenging to accurately identify the single "next best" alternative, especially if the options are not easily comparable.
- (iii) The concept assumes perfect market which is not achievable in the real world.
- (iv) It is not applicable where costs and benefits cannot be measure in monetary terms.
- (v) Opportunity cost is a theoretical concept and is not included in traditional accounting statements, making it invisible to standard financial reporting.
- (vi) Estimating future returns or benefits of a forgone option is speculative and can be inaccurate, as it relies on predicting uncertain future events.
- (vii) It is not applicable in situations where factor immobility *exists*.

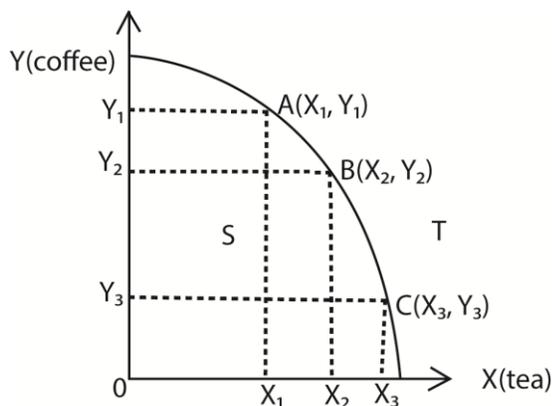
## The Production Possibility Frontier (PPF) / (Opportunity Cost curve)

The **production possibility frontier (PPF)** is a locus of points showing all possible combinations of two commodities that can be maximally produced when all resources are fully and efficiently utilized at a given level of technology,

The PPF assumes the following:

- (i) Production of only two commodities.
- (ii) Constant technology
- (iii) Full employment of resources.
- (iv) Constant prices of commodities
- (v) Perfect mobility of factors of production

### Illustration of the PPF



The PPF above shows that all resources are used to produce two commodities X (tea) and Y (coffee). Along the PPF curve, there are various combinations like A, B and C each representing two commodities produced in different quantities or units.

At point A, more units of Y (coffee) are produced than X (tea). And at point C more units of X (tea) are produced than Y (coffee).

### Key features of the PPF

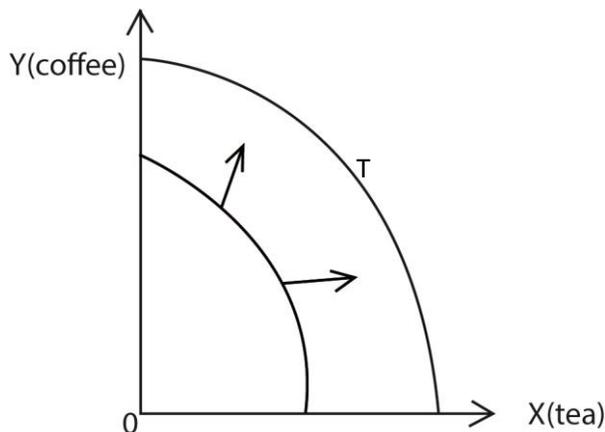
- (i) **Shows production possibilities:** The curve represents the "frontier" of what is possible, showing the maximum output combinations of two goods.
- (ii) **Illustrates scarcity:** Because resources are limited, production cannot occur beyond the PPF curve.
- (iii) **Demonstrates trade-offs:** To produce more of one good, you must produce less of the other, demonstrating the trade-off involved in allocating resources.
- (iv) **Indicates efficiency:** Points on the curve signify that all resources are being fully and efficiently utilized.

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- (v) **Represents opportunity cost:** The slope of the curve at any point shows the opportunity cost of producing one more unit of a good. It is the amount of the other good that must be sacrificed. For instance, if moving along the curve means giving up 10 units of a good X to produce 5 more units of Y, the opportunity cost of those 5 units of Y is 10 units of X.
- (vi) **Reveals different costs:**
  - A bowed-out (concave) curve shows an increasing opportunity cost.
  - A straight line shows a constant opportunity cost.
- (vii) **Highlights inefficiency:** Points inside the PPF represent a state of inefficiency, as more of both goods could be produced with the existing resources.
- (viii) **Shows unattainability:** Points outside the curve are unattainable with current resources and technology.
- (ix) **Illustrates economic shifts:** The PPF can shift outwards due to economic growth, which can be caused by factors like an increase in resources (labor or capital) or technological advancements.

### Economic growth

**Economic growth;** this refers to the persistent increase in the volume of goods and services produced in a country in a given time. Economic growth is illustrated on PPF by the outward shift of the curve to points like T as illustrated below;



The outward shift can be as a result of the following factors

- (i) Improvement in technology through innovations and inventions. **Innovation** refers to the improvement on the existing techniques and methods of production while *invention* refers to the total discovery of new techniques and methods of production.
- (ii) Increase in labour force.
- (iii) Improvement in the existing infrastructure.
- (iv) Political stability.
- (v) Discovery of new resources in in the economy,
- (vi) Increase in capital stock.
- (vii) Improvement in entrepreneurial skills.
- (viii) Increase in the efficiency of workers

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## Economic systems

Economic systems are how societies organize the production, distribution, and consumption of goods and services.

### Types of economic systems

#### 1. Traditional economy:

It is based on customs, traditions, and historical practices. Often involves bartering and is common in smaller societies. Activities like farming and crafting are often passed down through generations.

#### 2. Market (Free enterprise/Laissez fair) Economy

This is an economic system where productive resources are owned, controlled and allocated by private individuals without government intervention. Resources are allocated by forces of demand and supply. Also known as capitalism or free enterprise.

#### Feature (Characteristics) of a Market Economy

- (i) **Private property:** Individuals and private businesses own the factors of production, such as land, labor, and capital. They have the right to control, use, and benefit from this property.
- (ii) **Freedom of choice for consumers:** Consumers have the freedom to decide what goods and services to purchase based on their needs and preferences.
- (iii) **Freedom of choice for Producers:** Producers are free to decide what to produce, how to produce it, and what prices to charge.
- (iv) **Competition:** Businesses compete with one another to attract customers, which drives innovation, encourages efficiency, and can lead to lower prices and higher quality products for consumers.
- (v) **Price system (Supply and demand):** Prices are determined by the interaction of supply and demand in the marketplace. They act as signals that guide producers and consumers in their decision-making.
- (vi) **Limited government role:** The government's role is generally limited to establishing a legal framework for the economy, enforcing contracts, and ensuring fair competition. It does not typically control production or set prices.
- (vii) **Profit motive:** Businesses are motivated by the desire to make profits, which encourages them to efficiently meet consumer demand and innovate.
- (viii) **Voluntary exchange:** The economy functions through a system of voluntary exchanges between buyers and sellers.

#### Advantages of free market economy

- (i) **Economic growth and efficiency:** Competition and the profit motive incentivize businesses to work harder and produce more, leading to greater economic growth and a more efficient use of resources.

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- (ii) **Innovation:** The freedom to innovate and the potential for significant rewards encourage individuals and companies to develop new ideas, products, and services.
- (iii) **Consumer choice and satisfaction:** A wide variety of products and services are available because businesses are focused on meeting consumer demand and what customers are willing to pay for.
- (iv) **Competition:** Open competition among businesses leads to better quality products, more competitive pricing, and a greater variety of choices for consumers.
- (v) **Economic and individual freedom:** A free market allows individuals and businesses the freedom to pursue opportunities, make their own choices, and keep the wealth they create, which can also lead to greater political freedom.
- (vi) **A market economy promotes entrepreneurship;** because the emphasis within a market economy is on innovation, it creates an environment where entrepreneurship can thrive.
- (vii) **Market economies tend to provide more jobs;** because it allows very many small firms to thrive thereby creating employment.
- (viii) **It reduces government expenditure in form of administrative costs.** This is because it does not require government officials to monitor the economic activities.

#### **Disadvantages (demerits) free market economy**

- (i) **Wealth and income gaps:** Free markets can lead to substantial inequality because there is no government-mandated social safety net, such as free healthcare or welfare benefits.
- (ii) **Poverty:** Some individuals may live in poverty due to a lack of skills or unemployment, as there are no programs to support them.
- (iii) **Monopolies:** Powerful firms can dominate markets, leading to higher prices for consumers.
- (iv) **Environmental damage:** Businesses may ignore negative externalities like pollution because the cost of environmental damage is not reflected in the price of goods.
- (v) **Missing markets:** Goods and services that are beneficial to society but not profitable, such as some types of research or public goods, may not be provided at all.
- (vi) **Boom and bust cycles:** Free markets are prone to instability, with cycles of economic booms followed by recessions and unemployment.
- (vii) **Worker exploitation:** Without government regulation, firms may offer poor working conditions and low wages to maximize profits.
- (viii) **Poor quality:** Without regulation, companies may produce low-quality goods to reduce costs.
- (ix) **Inefficient resource allocation:** The market may not allocate resources effectively to sectors that are not highly profitable but are vital for the long-term well-being of society.

- (x) **Unemployment** – Unemployment may rise as there is no government check in the market.
- (xi) **It leads to production and consumption of harmful products in the economy.** Such goods include cocaine, marijuana, alcohol etc. This leads to deterioration in the standards of living of the consumers.
- (xii) **It leads to resource wastage through excessive advertisement and duplication of goods and services.** This leads to misallocation of resources in the economy.
- (xiii) **It leads to divergence between private and society interests.** This is because private individuals may maximize profits at the expense of the society in terms of negative externalities like environmental pollution in terms of noise and water pollution.
- (xiv) **Consumer exploitation through misleading adverts**

### 3. Command (Planned /centralized) Economy

This is an economic system where the resources are owned, controlled and allocated by the government (state) on behalf of its citizens. Planning and major economic decisions are made by the state (the planning authority).

#### Features (characteristic) of a Planned Economy

- (i) **Centralized decision-making:** The government determines what goods and services are produced, how much, and at what price.
- (ii) **Resource allocation by the state:** Land, labor, and capital are distributed according to government plans rather than market forces.
- (iii) **Price and wage control:** The government sets prices and wages to maintain stability and equality.
- (iv) **Focus on social welfare:** The system aims to provide equal employment opportunities and ensure basic needs are met for all citizens.
- (v) **Absence of competition:** Since production is state-controlled, private competition is minimal or nonexistent.
- (vi) **Long-term planning:** Economic activities are guided by multi-year plans (like the Soviet Union's Five-Year Plans).
- (vii) **Limited consumer choice:** Consumers have fewer options because production is based on government priorities rather than demand.
- (viii) **Public ownership:** Industries, resources, and enterprises are owned and managed by the state
- (ix) **Profit** is not the main objective, instead the government aims to provide goods and services to everybody.

## Advantages (Merits) of the Planned Economy

- (i) **Full utilization of resources:** Central planning reduces unemployment of land, labor, and capital by ensuring they are all used productively.
- (ii) **Mass production and economies of scale:** Large-scale production organized by the state lowers costs and increases efficiency.
- (iii) **Provision of essential goods:** The government ensures that necessities like healthcare, education, defense, and power are available to all citizens.
- (iv) **Reduced inequality:** Wealth and income are distributed more evenly since the government controls wages and prices.
- (v) **Economic stability:** Centralized control avoids extreme fluctuations in supply, demand, and prices, reducing inflation and unemployment.
- (vi) **Focus on long-term goals:** Governments can prioritize infrastructure, industrialization, or social development without being constrained by short-term profit motives.
- (vii) **Protection from exploitation:** Workers and consumers are safeguarded from monopolies and unfair practices because the state regulates production and distribution.
- (viii) **Affordable market prices** because monopolies are controlled
- (ix) **The system can cope up with the rapid structural changes.** For example drought, famine, etc. through proper planning by the central planning authority.
- (x) **It controls the production and consumption of harmful products the economy.** The government is in position to regulate the production of such commodities like alcohol and cigarettes through taxation. This helps to improve on the standards of living of the citizens.
- (xi) **Some key areas like production of fire arms cannot be left in the hands of private individuals.** This is because it may cause insecurity in the country hence the need for the planned economy,

## Disadvantages (demerits) of a planned economy

- (i) **Inefficiency in resource allocation:** Central planners may misjudge demand, leading to shortages or surpluses.
- (ii) **Lack of innovation:** With little competition and no profit incentive, firms have fewer reasons to innovate or improve quality.
- (iii) **Bureaucracy and delays:** Decision-making is slow due to heavy government involvement and rigid planning structures.
- (iv) **Limited consumer choice:** Goods and services are produced based on government priorities, not consumer preferences.
- (v) **Risk of corruption:** Concentrated power in the hands of planners can lead to favoritism or misuse of resources.

- (vi) **Poor responsiveness to change:** Planned economies struggle to adapt quickly to new technologies, global trends, or crises.
- (vii) **Low worker motivation:** Without performance-based rewards, productivity can suffer, and workers may lack incentives to excel.
- (viii) **Potential for stagnation:** Long-term growth can be hindered when innovation and efficiency are sacrificed for stability.
- (ix) **High resource wastage:** Lot of time and money is wasted in communicating instructions from the government to the firms.
- (x) It can lead to imbalance of regional resource allocation and development. This is due to state influence in resource distribution basing on political support

#### 4. Mixed economy

This is an economic system where the productive resources are owned, controlled and allocated by both the government and private individuals. Decision making and planning is done by both the private individuals and the state for example, Uganda.

##### Features/characteristics of mixed economy

- (i) **Coexistence of public and private sectors:** Both government-owned enterprises and privately-owned businesses operate side by side.
- (ii) **Government regulation:** The state intervenes to correct market failures, regulate monopolies, and ensure social welfare.
- (iii) **Freedom of enterprise:** Individuals and firms can own property, start businesses, and engage in trade, but within legal limits.
- (iv) **Social welfare objectives:** The government provides essential services like healthcare, education, and infrastructure to ensure equity.
- (v) **Price mechanism with control:** Market forces determine most prices, but the government may fix or regulate prices for essential goods.
- (vi) **Balanced resource allocation:** Resources are distributed through both market demand and government planning.
- (vii) **Protection of consumer rights:** Laws safeguard consumers against exploitation and ensure fair competition.
- (viii) **Economic planning:** Governments use policies and plans to guide development while leaving room for private initiative.
- (ix) Production is for both profits and welfare maximization

#### Revision Questions

##### Section A questions

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1. (a) Distinguish between positive statements and normative statements as used in economics  
(b) Give 2 examples of normative statements.
2. (a) Distinguish between scarcity, choice and opportunity cost  
(b) Explain how scarcity is related to choice and real cost
3. (a) Define the term real cost  
(b) Give any three uses of opportunity cost concept to the producer
4. (a) Distinguish between Micro-economics and macro-economics.  
(b) Give three assumptions underlying the production possibility frontier.
5. Identify four circumstances under which the concept of opportunity cost is applied in economics
6. Give four limitations of the concept of opportunity cost in resource-allocation?
7. (a) What is meant by a transformation curve.  
(b) Mention three factors that may lead to a shift in the transformation curve
8. (a) Define the term a "want"  
(b) Mention any three features of a want
9. (a) Define the term scale of preference  
(b) State any three economic questions.
10. (a) Distinguish between a free good and an economic good  
(b) State four traits of an economic good.
11. (a) What is meant by the term wealth  
(b) Give three characteristics of wealth
12. (a) Define a market economy  
(b) Mention any three features of the market economy
13. (a) Distinguish between a merit good and a public good  
(b) Give two examples of merit goods.
14. Outline four features of public goods
15. (a) Distinguish between substitutes and complements  
(b) Give two examples of complements,
16. Distinguish between the following types of goods  
(a) Capital goods and intermediate goods  
(b) Inferior goods and Giffen goods  
(c) Substitute goods and complementary goods
17. (a) What is meant by a "laissez faire" Economy

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- (b) Give three features of a "laissez faire" Economy.
18. (a) Distinguish between a barter economy and a command economy  
(b) Give four features that qualify Uganda as a mixed economy.
19. (a) Define the term "price" as used in economics  
(b) Mention three circumstances under which the production possibility curve may shift outwards
20. Outline four characteristics (features) of a market economy

### **Section B questions**

- 1 (a) Distinguish between a command economy and a market economy  
(b) What are the advantages and disadvantages of a market economy?
- 2 (a) what is meant by a planned economy.  
(b) Explain the advantages and disadvantages of a planned economy

**Thank you**  
**Dr. Bbosa Science**