
Answer any FIVE questions.

QUESTION ONE
(a) Explain the following types of development plans:

(i) Short term plans. (1 mark)
(ii) Medium term plans. (1 mark)
(iii) Long term plans. (1 mark)

(b) Highlight three exceptions to the law of diminishing marginal utility. (3 marks)

(c) Describe four functions of money in an economy. (4 marks)

(d) Enumerate five advantages and five disadvantages of a planned economic system. (10 marks) (Total: 20 marks)

QUESTION TWO
(a) Analyse the relevance of interest rates in an economy. (5 marks)

(b) Examine eight policy measures that could be adopted to minimise the problem of rising external debt in developing countries. (8 marks)

(c) The data provided below relate to the quantities demanded of commodities A, B and C at different price levels:

<table>
<thead>
<tr>
<th>Commodity A</th>
<th>Commodity B</th>
<th>Commodity C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit price</td>
<td>Quantity demanded</td>
<td>Unit price</td>
</tr>
<tr>
<td>(Sh.)</td>
<td>(Units)</td>
<td>(Sh.)</td>
</tr>
<tr>
<td>75</td>
<td>923</td>
<td>14</td>
</tr>
<tr>
<td>52</td>
<td>1,568</td>
<td>21</td>
</tr>
</tbody>
</table>

Required:
(i) Elasticity of demand for commodities A, B and C. (6 marks)

(ii) Using the results obtained in (c) (i) above, advise the government on the commodity that should be considered for a tax increase. (1 mark) (Total: 20 marks)
QUESTION THREE
(a) Outline four factors that determine the supply of labour in an economy. (4 marks)

(b) With the aid of well labelled diagrams, analyse the effects of each of the following situations on the market equilibrium price and quantity of an agricultural product X:
   (i) A reduction in the price of product Y which is a close substitute for product X. (4 marks)
   (ii) A successful promotional campaign by producers showing the nutritional benefits of product X. (4 marks)
   (iii) Discovery of a new use for product X by consumers, accompanied by bad weather condition. (4 marks)
   (iv) Simultaneous increase in government subsidy on product X accompanied by a reduction in the price of the substitute product Y. (4 marks)
(Total: 20 marks)

QUESTION FOUR
(a) State five advantages and five disadvantages of a perfectly competitive market structure. (10 marks)

(b) Using appropriate illustrations, describe consumer equilibrium under the following approaches to the theory of consumer behaviour:
   (i) Cardinal approach. (5 marks)
   (ii) Ordinal approach. (5 marks)
(Total: 20 marks)

QUESTION FIVE
(a) The data below relate to the total cost function of a firm operating under perfect competition:

\[ C = 5000 + 500Q + 150Q^2 + 5Q^3 \]

Where:  
- \( C \) = Total cost in thousands of shillings.
- \( Q \) = Output in units.

Required:
Assuming an output level of 10 units, determine:
   (i) Total cost of production. (1 mark)
   (ii) Average variable cost of production. (2 marks)
   (iii) Marginal cost of production. (2 marks)
(b) Explain five advantages of implementing exports promotion strategy in developing countries. (5 marks)
(c) Highlight ten problems that are faced by the agricultural sector in developing countries. (10 marks)
(Total: 20 marks)

QUESTION SIX
(a) With the aid of a diagram, explain the term “surplus” as applied in the theory of market equilibrium. (4 marks)

(b) Analyse six factors that influence the cost behaviour of a firm. (6 marks)

(c) Using well labelled diagrams, distinguish between “inflationary gap” and “deflationary gap” as used in national income statistics. (10 marks)
(Total: 20 marks)

QUESTION SEVEN
(a) Explain the difference between “inelastic demand” and “unitary elasticity of demand”. (2 marks)

(b) Suggest four contractionary monetary policy measures that could be used to combat high level of inflation in a developing country. (4 marks)

TOTAL: 80 marks
(c) The data provided below represent estimated national income figures for a hypothetical economy in millions of shillings:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product (at market price)</td>
<td>3,992</td>
</tr>
<tr>
<td>Depreciation allowance</td>
<td>570</td>
</tr>
<tr>
<td>Indirect taxes less subsidies</td>
<td>524</td>
</tr>
<tr>
<td>Business taxes</td>
<td>214</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>763</td>
</tr>
<tr>
<td>Government transfers</td>
<td>693</td>
</tr>
<tr>
<td>Retained profit</td>
<td>230</td>
</tr>
</tbody>
</table>

Required:
(i) Net National Product at market price. (2 marks)
(ii) Net National Product at factor cost. (2 marks)
(iii) Personal income. (2 marks)
(iv) Disposable income. (2 marks)

(d) Outline six challenges encountered by economic planners when using the income approach to estimate the level of national income in developing countries. (6 marks)

(Total: 20 marks)

Answer any FIVE questions.

QUESTION ONE
(a) Highlight four steps followed in the scientific method used in economics. (4 marks)
(b) Enumerate five factors that determine the price elasticity of supply of a commodity. (5 marks)
(c) Using indifference curve analysis, derive the Engel’s curve of a normal good. (6 marks)
(d) Summarise five applications of opportunity cost in decision making. (5 marks) (Total: 20 marks)

QUESTION TWO
(a) With the aid of a well labelled diagram, describe the cobweb model as used in economics. (5 marks)

(b) With reference to the theory of production, discuss five factors that could lead to:
(i) Increasing returns to scale. (5 marks)
(ii) Decreasing returns to scale. (5 marks)

(c) (i) Explain the term “cross elasticity of demand.” (1 mark)
(ii) The following data relate to a consumer in a certain market:

<table>
<thead>
<tr>
<th>Price of commodity x (Sh.)</th>
<th>Quantity consumed of commodity y (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>80</td>
</tr>
<tr>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>20</td>
<td>120</td>
</tr>
<tr>
<td>24</td>
<td>140</td>
</tr>
<tr>
<td>28</td>
<td>160</td>
</tr>
</tbody>
</table>

Required:
The cross elasticity of demand. Comment on the relationship between commodity x and commodity y. (4 marks) (Total: 20 marks)

QUESTION THREE
(a) Explain the difference between “real” and “pecuniary” economies of scale of a firm. (1 mark)
(b) Outline four limitations of the cardinal approach to the theory of consumer behaviour. (4 marks)
(c) State three reasons why the demand curve slopes downwards. (3 marks)
(d) The following data relate to the nominal and real gross national product (GNP) levels of a certain economy for the years 2011 and 2016:

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GNP (Sh. billion)</th>
<th>Real GNP (Sh. billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.085</td>
<td>1.085</td>
</tr>
<tr>
<td>2016</td>
<td>1.850</td>
<td>1.275</td>
</tr>
</tbody>
</table>

Required:
(i) The gross national product implicit price deflator for the years 2011 and 2016. Interpret your results. (3 marks)
(ii) Using year 2011 as the base year, determine the inflation rate for the economy. (4 marks)
(e) With the aid of an appropriate diagram, explain the condition under which a firm operating under perfect competition market structure would make supernormal profits in the short-run. (5 marks)

(Total: 20 marks)

QUESTION FOUR
(a) Highlight four salient features of a monopolistic competition market structure. (4 marks)
(b) Suggest six economic reforms that could be put in place to boost the growth of the informal sector in developing countries. (12 marks)
(c) The demand and supply functions of a certain commodity are given as follows:

\[ Q_d = 300 - 0.5p \]
\[ Q_s = -400 + 0.6p \]

Where:
- \( Q_d \) is the demand function.
- \( Q_s \) is the supply function.
- \( p \) is the unit price of the commodity.

Required:
The equilibrium price and quantity of the commodity. (4 marks)

(Total: 20 marks)

QUESTION FIVE
(a) Explain the monetarists view on the quantity theory of money. (2 marks)
(b) Enumerate four exceptions to the law of supply. (4 marks)
(c) Recently, there have been deliberate attempts to control the rate of interest in some of the developing countries. In view of the above statement, explain five advantages of interest rate decontrols in an economy. (5 marks)
(d) (i) Distinguish between the "multiplier" and the "accelerator" as used in national income statistics. (2 marks)
(ii) Explain four factors that could limit the application of the multiplier in developing countries. (4 marks)
(e) The following information relates to the demand of a commodity in relation to the income of a consumer:

<table>
<thead>
<tr>
<th>Income (Sh.)</th>
<th>Demand (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000</td>
<td>16</td>
</tr>
<tr>
<td>29,000</td>
<td>7</td>
</tr>
</tbody>
</table>

Required:
The income elasticity of demand of the commodity. Interpret your result. (3 marks)

(Total: 20 marks)
QUESTION SIX
(a) Argue the case for and against regional economic integration by developing countries. (12 marks)

(b) A firm operating under perfect competition has the following demand and total cost functions:

\[ P = 25 - 50Q \]
\[ TC = 100 - 15Q + 60Q^2 \]

Where: \( P \) is the price in shillings, 
\( Q \) is the quantity in units, 
\( TC \) is the total cost.

Required:
(i) The level of output that would maximise profit. (5 marks)
(ii) The level of output that would minimise costs. (3 marks)

(Total: 20 marks)

QUESTION SEVEN
(a) Describe five causes of balance of payment deficits in developing countries. (5 marks)

(b) Outline six limitations of the theory of comparative advantage. (6 marks)

(c) Summarise nine reasons why unemployment is a major policy issue in developing countries. (9 marks)

(Total: 20 marks)
KASNEB
CPA PART I SECTION 2
CS PART I SECTION 2
CIFA PART I SECTION 2
CCP PART I SECTION 2
ECONOMICS


Answer any FIVE questions.

QUESTION ONE
(a) (i) Explain the term “price control” as used in economics.
(ii) Highlight eight reasons for price controls in an economy.
(b) Outline six advantages of a controlled market system.
(c) With the aid of a diagram, explain the concept of consumer surplus.

(1 mark)  
(8 marks)  
(6 marks)  
(5 marks)  
(Total: 20 marks)

QUESTION TWO
(a) Enumerate six factors that could lead to a rightward shift of the supply curve.
(b) State six assumptions of the marginal productivity theory of wage determination.
(c) Summarise eight factors that could affect own price elasticity of demand of a commodity.

(6 marks)  
(6 marks)  
(8 marks)  
(Total: 20 marks)

QUESTION THREE
(a) With the aid of well labelled diagrams, discuss the short run and long run equilibrium positions of a firm operating under monopolistic competition.
(b) A monopolist sells his product in two distinct markets, A and B. The cost function of the monopolist is given as:

\[ C = 100Q \]

Where: \( C \) is the total cost function
\( Q \) is the total production in units.

The demand functions of the two distinct markets are given as:
\[ Q_A = 50 - 0.2P_A \]
\[ Q_B = 100 - 0.5P_B \]

Where:
\( Q_A \) is the demand of the product in market A.
\( Q_B \) is the demand of the product in market B.
\( P_A \) is the price of the product in market A.
\( P_B \) is the price of the product in market B.

Required:
(i) The equilibrium level of price and quantity of the product in market A.
(ii) The equilibrium level of price and quantity of the product in market B.

(4 marks)  
(4 marks)  
(Total: 20 marks)

CA21, CS21, CF21 & CP21 Page 1
Out of 3
QUESTION FOUR
(a) Highlight five strategies that could be implemented by governments in developing countries to spur growth in the industrial sector. (5 marks)
(b) Using an appropriate diagram, describe the expansion curve of a firm as applied in the theory of production. (5 marks)
(c) Discuss ten limitations of using national income statistics to compare the standards of living between different countries. (10 marks)
(Total: 20 marks)

QUESTION FIVE
(a) The United Kingdom (UK) recently withdrew its membership from the European Union (EU), a process that was referred to as “Brexit”. Analyse the likely economic effect of “Brexit” on the United Kingdom’s:
(i) Exchange rates. (2 marks)
(ii) Interest rates. (2 marks)
(iii) Inflation rate. (2 marks)
(iv) Securities exchange market. (2 marks)
(b) The table below shows the total variable costs of Uzu Limited at different levels of output.

<table>
<thead>
<tr>
<th>Level of output (units)</th>
<th>Total variable cost (Sh.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>80,000</td>
</tr>
<tr>
<td>2</td>
<td>130,000</td>
</tr>
<tr>
<td>3</td>
<td>200,000</td>
</tr>
<tr>
<td>4</td>
<td>270,000</td>
</tr>
<tr>
<td>5</td>
<td>310,000</td>
</tr>
<tr>
<td>6</td>
<td>510,000</td>
</tr>
<tr>
<td>7</td>
<td>530,000</td>
</tr>
<tr>
<td>8</td>
<td>580,000</td>
</tr>
</tbody>
</table>

The total fixed cost of the company is Sh.150,000.

Required:
(i) The average cost of producing each level of output. (4 marks)
(ii) The marginal cost of producing each level of output. (4 marks)
(iii) The maximum attainable profit. (4 marks)
(Total: 20 marks)

QUESTION SIX
(a) Outline five factors that determine the rate of exchange of a country’s currency. (5 marks)
(b) Enumerate five roles of the central bank in an economy. (5 marks)
(c) Suggest five policy measures that could be adopted to reduce the level of unemployment in a developing country. (10 marks)
(Total: 20 marks)

QUESTION SEVEN
(a) Explain the relationship between money supply and the level of inflation in an economy. (2 marks)
(b) State six advantages of a floating exchange rate system in an economy. (6 marks)
(c) Summarise eight challenges that hinder successful achievement of national development targets set by developing countries. (8 marks)
The economic transactions for a hypothetical economy in thousands of shillings are given as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total output</th>
<th>Intermediate purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sh.‘000”</td>
<td>Sh.‘000”</td>
</tr>
<tr>
<td>Service</td>
<td>76,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Agricultural</td>
<td>55,000</td>
<td>23,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>111,000</td>
<td>69,000</td>
</tr>
</tbody>
</table>

Indirect taxes and fixed assets depreciation amount to Sh.21,000,000 and Sh.22,000,000 respectively.

Required:
(i) Gross national product using the value added approach. (2 marks)
(ii) Net domestic product at market price. (1 mark)
(iii) Net domestic product at factor cost. (1 mark)

(Total: 20 marks)
KASNEB

CPA PART I SECTION 2
CS PART I SECTION 2
CIFA PART I SECTION 2
CCP PART I SECTION 2

ECONOMICS

TUESDAY: 24 May 2016.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE
(a) Outline four assumptions underlying consumer equilibrium. (4 marks)

(b) With the aid of a diagram, explain the production possibility frontier. (5 marks)

(c) Summarise five ways through which the government could influence the allocation of resources in a free market economy. (5 marks)

(d) Explain how the concept of elasticity of demand guides economic decision making in the following areas:
   (i) Government tax policy on household consumption. (2 marks)
   (ii) Devaluation policy. (2 marks)
   (iii) Price discrimination by a monopolist. (2 marks)

QUESTION TWO
(a) Differentiate between the following sets of terms as used in economics:
   (i) “Structural unemployment” and “keynesian unemployment”. (2 marks)
   (ii) “Narrow money” and “broad money”. (2 marks)

(b) Highlight five disadvantages of the monopoly market structure. (5 marks)

(c) A certain market for commodity x contains 1,000 identical consumers, each having a demand function given as:

   \[ Q_{d_i} = 12 - 2p_x \]

   The market contains 100 identical producers of commodity x, each with a supply function given by \( Q_{s} = 20p_x \).

   \[ Q_{d_i} \] is the quantity demanded of x,
   \( Q_{s} \) is the quantity supplied of x,
   \( p_x \) is the price of x.

   Required:
   (i) The market demand and market supply functions of commodity x. (4 marks)

   (ii) Using indifference curve analysis, illustrate the effect of a government subsidy on commodity x to low income earners. (7 marks)

(Total: 20 marks)
QUESTION THREE
(a) Discuss five policy measures that developing countries could adopt to reduce regional imbalances. (5 marks)

(b) Using a well labelled diagram, evaluate the effect of simultaneous increase in demand and decrease in supply on equilibrium price and quantity of a commodity. (5 marks)

(c) Discuss five causes of the U-shaped long-run average cost curves of a firm. (10 marks)

(Total: 20 marks)

QUESTION FOUR
(a) Enumerate six barriers to occupational mobility of labour. (6 marks)

(b) Illustrate the close down price of a firm operating under perfect competition. (6 marks)

(c) Outline eight roles of commercial banks in boosting the economic development of a country. (8 marks)

(Total: 20 marks)

QUESTION FIVE
(a) Explain five factors that determine the macroeconomic level of consumption in an economy. (10 marks)

(b) The following data relate to the commodity and money markets of a hypothetical closed economy without government intervention, in millions of shillings:

\[
\begin{align*}
C &= 204 + 0.7Y \\
I &= 300 - 100r \\
M_{DT} &= 0.25Y \\
M_{DS} &= 248 - 200r \\
M_s &= 600 \\
\end{align*}
\]

Where: C is the consumption function.
Y is the national income.
I is the investments function.
r is the rate of interest.
M_{DT} is the precautionary and transactionary demand for money.
M_{DS} is the speculative demand for money.
M_s is the money supply.

Required:
(i) Equilibrium level of interest rate. (7 marks)
(ii) Equilibrium level of national income. (3 marks)

(Total: 20 marks)

QUESTION SIX
(a) Explain the term "balance of payments" as used in international trade. (2 marks)

(b) With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make losses in the short-run. (6 marks)

(c) Examine six roles of non-banking financial institutions in an economy. (6 marks)

(d) Describe three ways in which a government could use fiscal policy to stimulate economic growth. (6 marks)

(Total: 20 marks)

QUESTION SEVEN
(a) Summarise five causes of inflation in developing countries. (5 marks)

(b) Highlight eight arguments in favour of international trade restrictions in a country. (8 marks)

(c) State seven economic goals of developing countries. (7 marks)

(Total: 20 marks)
KASNEB
CPA PART I SECTION 2
CS PART I SECTION 2
CIFA PART I SECTION 2
CCP PART I SECTION 2
ECONOMICS

MONDAY: 23 November 2015.

Answer any FIVE questions.

Time Allowed: 3 hours.

ALL questions carry equal marks.

QUESTION ONE
(a) With the aid of a diagram, describe the concept of unstable market equilibrium. (5 marks)

(b) "All giffen goods are inferior goods but not all inferior goods are giffen goods".

Using a relevant diagram, explain the above statement. (10 marks)

(c) Argue five cases for and five cases against specialisation as a method of production. (Total: 20 marks)

QUESTION TWO
(a) Outline four arguments upon which trade unions base their demand for increase in wages for unionisable employees. (4 marks)

(b) State six effects of price decontrols to an economy. (6 marks)

(c) Analyse six uses of elasticity of demand in decision making. (6 marks)

(d) The following information relate to the price per unit and quantity supplied of a certain product:

<table>
<thead>
<tr>
<th>Price per unit (Sh.)</th>
<th>12</th>
<th>10</th>
<th>8</th>
<th>5</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity supplied (Units)</td>
<td>12,000</td>
<td>11,000</td>
<td>9,000</td>
<td>6,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Required:
Price elasticity of supply when price decreases from Sh.10 per unit to Sh.5 per unit. Interpret your result. (Total: 20 marks)

QUESTION THREE
(a) Explain the term "optimal size of a firm". (2 marks)

(b) With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make super normal profits in the short-run. (5 marks)

(c) (i) Summarise seven barriers to geographical mobility of labour as a factor of production. (7 marks)

(ii) Highlight six measures that could be adopted by a government to enhance mobility of labour. (6 marks)

(Total: 20 marks)
QUESTION FOUR

(a) Outline five problems associated with the expenditure approach of measuring the national income of a country. (5 marks)

(b) Enumerate five changes in the tax policy that could be implemented by a government to spur growth in the agricultural sector. (5 marks)

(c) The following information relates to savings and investments of a certain economy in millions of shillings:

\[
S = 500 + 0.36Y
\]

\[
I = 8,000
\]

Where:

\[S\] = Savings function.

\[Y\] = National income.

\[I\] = Investments function.

Required:

(i) The consumption function. (3 marks)

(ii) The equilibrium level of national income. (3 marks)

(iii) The multiplier. Interpret your result. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Describe five instruments of monetary policy that could be used to control the level of money supply in an economy. (10 marks)

(b) Discuss five factors that limit the effectiveness of monetary policies in developing countries. (10 marks)

(Total: 20 marks)

QUESTION SIX

(a) Explain four effects of inflation on the functions of money. (8 marks)

(b) (i) Outline six causes of high levels of external debts in developing countries. (6 marks)

(ii) Summarise six policies that could be adopted to combat the problem of high levels of external debts in developing countries. (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Highlight five determinants of money supply in an economy. (5 marks)

(b) Describe five differences between commercial banks and non-banking financial institutions. (10 marks)

(c) The data provided below represent estimated national income figures for country “X” in trillion of shillings:

<table>
<thead>
<tr>
<th>Component</th>
<th>Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product (at market price)</td>
<td>620.4</td>
</tr>
<tr>
<td>Government transfers</td>
<td>78.6</td>
</tr>
<tr>
<td>Business taxes</td>
<td>18.2</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>56.1</td>
</tr>
<tr>
<td>Depreciation allowance</td>
<td>42.3</td>
</tr>
<tr>
<td>Indirect taxes less subsidies</td>
<td>36.5</td>
</tr>
</tbody>
</table>

Required:

(i) Net National Income at factor cost. (2 marks)

(ii) Net National Product at market price. (1 mark)

(iii) Personal income. (1 mark)

(iv) Disposable income for country “X”. (1 mark)

(Total: 20 marks)
QUESTION ONE

(a) (i) Distinguish between "gross domestic product" and "gross national product". (4 marks)

(ii) Give the reasons for the lower value of the gross national product in the less developing countries. (1 mark)

(b) The following data represents economic transactions of a hypothetical economy:

<table>
<thead>
<tr>
<th>Description</th>
<th>Sh. “million”</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government final expenditure</td>
<td>6,750</td>
</tr>
<tr>
<td>Taxes on expenditure</td>
<td>4,250</td>
</tr>
<tr>
<td>Transfer payments</td>
<td>675</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>2,500</td>
</tr>
<tr>
<td>Net property income from abroad</td>
<td>250</td>
</tr>
<tr>
<td>Consumers expenditure</td>
<td>18,500</td>
</tr>
<tr>
<td>Subsidies</td>
<td>750</td>
</tr>
<tr>
<td>Gross domestic fixed capital formation</td>
<td>5,750</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>750</td>
</tr>
<tr>
<td>Undistributed profits</td>
<td>500</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>1,000</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>9,250</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>8,750</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,500</td>
</tr>
</tbody>
</table>

Required:
Calculate:

(i) Gross national product. (2 marks)

(ii) Net national product. (2 marks)

(iii) National income. (2 marks)

(iv) Personal income. (2 marks)

(v) Disposable income. (2 marks)

(e) Briefly explain five functions of money. (Total: 20 marks)
QUESTION TWO
(a) Highlight five features of a firm under perfect competition. (5 marks)
(b) With the aid of a diagram, show that MC=MR is just a necessary but not sufficient condition for profit maximisation. (4 marks)
(c) In the short-run, a monopolist does not necessarily have to make profits; he can make losses. Whether he makes a profit or a loss depends on the position of the short-run total cost curve (SATC) at the short-run equilibrium. Using an appropriate diagram, discuss the conditions for the loss minimisation of a monopolist. (5 marks)
(d) Under monopolistic competitive markets the products are usually differentiated yet they are very close substitutes for one another. Explain the main types of product differentiation in monopolistic competitive market. (6 marks)
(Total: 20 marks)

QUESTION THREE
(a) Giving examples, distinguish between “fixed costs” and “variable costs”. (4 marks)
(b) A firm operating in the short-run period has a fixed cost of Sh.8,600. The table below shows its total variable cost and the units of output:

<table>
<thead>
<tr>
<th>Units of output:</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total variable costs (Sh.):</td>
<td>3040</td>
<td>5680</td>
<td>8000</td>
<td>10080</td>
<td>12000</td>
<td>14000</td>
<td>16240</td>
<td>18960</td>
<td>22480</td>
<td>26880</td>
<td></td>
</tr>
</tbody>
</table>

Required:
For each level of output, calculate the firm’s total cost, average total cost, average variable cost, average fixed cost and marginal cost giving your solution in columnar form/tabular form. (10 marks)
(c) Using an appropriate diagram for each case, explain the three properties of isoquants. (6 marks)
(Total: 20 marks)

QUESTION FOUR
(a) One of the main functions of a central bank is the effective implementation of the monetary policies. Discuss the main instruments of monetary policies. (10 marks)
(b) Distinguish between “economic growth” and “economic development”. (4 marks)
(c) Briefly explain the effects of high levels of inflation in an economy. (6 marks)
(Total: 20 marks)

QUESTION FIVE
(a) Using the indifference curve margins, discuss how the consumers equilibrium is obtained. Use an appropriate diagram to illustrate your answer. (6 marks)
(b) With the help of well illustrated diagrams, draw the substitution effect and income effect of:
   (i) A normal good. (8 marks)
   (ii) An inferior good.
(c) Briefly explain the concept of elasticity of demand in the economic management policy decision making. (6 marks)
(Total: 20 marks)
QUESTION SIX
(a) Most developing countries experience deficits in their balance of payments. Explain the various methods that could be used by these countries to correct deficits in their balance of payments. (10 marks)

(b) Explain three types of unemployment. (6 marks)

(c) Using the Phillips curve, explain the relationship between unemployment and inflation. (4 marks)

(Total: 20 marks)

QUESTION SEVEN
(a) Briefly explain five factors that could affect the price elasticity of supply. (5 marks)

(b) (i) State the law of diminishing marginal returns. (2 marks)

(ii) With the aid of a diagram, explain the three stages of production according to this law. (8 marks)

(c) Highlight five functions of trade unions. (5 marks)

(Total: 20 marks)
QUESTION ONE

a) Differentiate between "microeconomic theory" and "macroeconomic theory". 

b) Explain the three basic economic problems.

c) Outline six limitations of a free market economy.

d) The demand and supply of houses in a certain city are represented by the following function (in thousands):

\[ Q_d = 100 - 2P \]
\[ Q_s = 50 + 5P \]

Where: \( Q_d \) is the quantity demanded
\( Q_s \) is the quantity supplied
\( P \) is the rental price per house

Required:

i. The equilibrium price and quantity.

ii. Evaluate the effect of a rental price ceiling set by the rental control board at Sh. 6,500 per house.

(Total: 20 marks)

QUESTION TWO

a) i. Explain the term "elasticity of supply".

ii. Summarise three applications of elasticity of supply in economic decision making.

b) Using a relevant diagram, explain the relationship between the price and quantity demanded of a normal good.

c) Describe three limitations of the cardinal approach of measuring consumer utility.

d) With the aid of a well labeled diagram, discuss the concept of consumer surplus.

(Total: 20 marks)

QUESTION THREE

a) Outline six contributions of industry in the economic development of developing countries.

b) Highlight six reasons why most developing have failed to realize the benefits of international trade.

c) Examine eight consequences of unemployment.

(Total: 20 marks)

QUESTION FOUR

a) State five criticisms of the marginal productivity theory of wage discrimination.
b) With the aid of well labeled diagrams, analyse the effects of each of the following situations on wage rate and employment level.

i. Introduction of a minimum wage rate by the government  
   (5 marks)

ii. An increase in the school leaving age coupled with a reduction in the retirement age.  
    (5 marks)

iii. A recession in the economy.  
     (5 marks)

(Total: 20 marks)

QUESTION FIVE

a) Explain three motives of holding money as advanced by the Keynesian liquidity preference theory.  
   (6 marks)

b) With the aid of diagram describe the effect of increase in income to the equilibrium level in the money market.  
    (6 marks)

c) The following information relates to the commodity and money markets of a certain closed in millions of shillings:

\[ C = 300 + 0.6Y \]
\[ I = 1800 - 10r \]
\[ MDT = 0.4Y \]
\[ MDs = 20 - 10r \]
\[ Ms = 1200 \]

Where:  
C=Consumption function  
Y=National Income  
I=Investments function  
r=rate of interest  
MDT=Precautionary and transactionary demand for money  
MDs=Speculative demand for money  
Ms=money supply

Required:

i. The LM Function  
   (2 marks)  

ii. The IS Function  
    (2 marks)  

iii. The equilibrium level of interest rate  
    (2 marks)  

iv. The equilibrium level of national income  
    (2 marks)  

(Total: 20 marks)

QUESTION SIX

a) Describe the effect of inflation on each of the following:

i. Exchange rate  
    (2 marks)  

ii. Interest rate  
    (2 marks)  

iii. Balance of payments  
    (2 marks)  

iv. National income  
    (2 marks)  

b) Enumerate four causes of a budget deficit in an economy.  
   (4 marks)  

c) Discuss four ways in which a country could finance its public sector expenditure.  
   (8 marks)  

(Total: 20 marks)
QUESTION SEVEN

a) Illustrate the loss making level of output of a firm operating under perfect competition. (5 marks)

b) Outline eight factors that could hinder economic development in developing countries. (8 marks)

c) The following information relates to the national income statistics of a hypothetical economy in billions of shillings:

- Personal income taxes: 5,000
- Price index: 250
- Undistributed profits: 3,000
- Business taxes: 4,000
- Transfer payments: 8,000
- Social security contributions: 11,000
- Subsidies: 4,000
- Consumer expenditure: 75,000
- Net property income from abroad: 1,000
- Taxes on expenditure: 18,000
- Depreciation allowance: 15,000
- Export of goods and services: 36,000
- Gross domestic fixed capital formation: 24,000
- Government expenditure: 28,000
- Import of goods and services: 38,000

Required:

i. Gross national product at market price (2 marks)
ii. Disposable income (2 marks)
iii. Real gross national product (2 marks)

(Total: 20 marks)
26th May 2014

QUESTION ONE

a) 
   i. Briefly explain the term "credit creation" (2 marks)
   ii. Explain four factors that limit the effectiveness of credit creation by commercial banks. (8 marks)

b) Outline seven limitations of the quantity theory of money. (7 marks)

c) The demand function of a certain product is given as follows:
   \[ Q = 100 - 5P \]
   Where: \( Q \) is the level of output
   \( P \) is the unit price

   Required:
   The point elasticity of demand when unit price is Sh. 10. Interpret your result (3 marks)

(Total 20 marks)

QUESTION TWO

a) Differentiate between "partial equilibrium analysis" and "general equilibrium analysis" as used in economics. (2 marks)

b) Explain three exceptions to the law of demand. (6 marks)

c) With the aid of well labeled diagrams, analyze the effects of each of the following situations on the market equilibrium price and quantity of orange fruit.
   i. Where there is a fall in the price of mango fruit which is a substitute of orange fruit. (4 marks)
   ii. Where the government initiates an effective promotional campaign aimed at boosting the sales of orange fruit. (4 marks)
   iii. Where there is a severe drought that has led to poor yield of orange fruit. (4 marks)

(Total 20 marks)

QUESTION THREE

a) Highlight four causes of cost-push inflation in an economy. (4 marks)

b) Suggest eight non-monetary measures that could be used to curb unemployment in developing countries. (8 marks)

c) The demand and average cost functions of a certain firm are given by

   \[ Q = 90 + 2P = 0 \]
   And
   \[ AC = Q^2 - 8Q + 57 + 2Q^{-1} \]

   Where: \( Q \) is the level of output
   \( P \) is the unit price

   Required:
   The level of output that will maximize profit. (8 marks)
QUESTION FOUR

a) i. Explain the law of variable proportions. (2 marks)
ii. Enumerate four assumptions underlying the law of variable proportions. (4 marks)

b) "A government might intervene in a free market economic system". Discuss five reasons that might drive a government to intervene. (5 marks)
c) With the aid of appropriate diagrams, describe three properties of indifference curves. (9 marks)

QUESTION FIVE

a) i. Briefly describe a deflationary gap. (2 marks)
ii. Illustrate how fiscal policy might be used to control a deflationary gap in an economy. (4 marks)

b) Outline four limitations of the theory of comparative advantage. (4 marks)
c) Discuss five canons of a good taxation system. (10 marks)

QUESTION SIX

a) Analyze five measures that could be adopted by developing countries to promote exports of goods and services. (10 marks)
b) Discuss the role played by the International Monetary Fund (IMF) in developing countries. (10 marks)

QUESTION SEVEN

a) Enumerate five sources of external economies of scale. (5 marks)
b) Describe four ways in which a government could influence the allocation of economic resources in a country. (8 marks)
c) The data provided below represents the national income model of a hypothetical country in trillions of shillings:
   \[ C = 50 + 0.6(Y-T) \]
   \[ 1 = 35 \]
   \[ G = 25 \]
   \[ T = 20 \]
   \[ X = 30 \]
   \[ M = 8 + 0.1Y \]

Where:
   C = Consumption expenditure
   Y = National Income
   T = Taxes
Required:

i. The equilibrium level of national income. (3 marks)

ii. The multiplier (2 marks)

iii. The equilibrium level of consumption expenditure (2 marks)

(Total 20 marks)
December 2012

QUESTION ONE

a) Explain the term "demand curve". (2 marks)
b) Identify two reasons why demand curve slopes downwards. (4 marks)
c) Analyze the importance of elasticity of demand in economic decision making. (6 marks)
d) Explain eight determinants of money supply in an economy. (8 marks)

(Total: 20 marks)

QUESTION TWO

a) Highlight five factors that are likely to influence the cost behavior of a manufacturing firm. (5 marks)
b) With the aid of a well labeled diagram, illustrate the relationship between marginal cost and average cost as applied in production theory. (7 marks)
c) The demand function of a certain firm is given as follows:

\[ Q + 10P = 20 \]

Where: Q is the level of output
P is the unit price.

Required:
   i. The average revenue function (2 marks)
   ii. The total revenue function (2 marks)
d) Outline four salient features of isoquant curves. (4 marks)

(Total: 20 marks)

QUESTION THREE

a) Using a diagram, explain the law of diminishing marginal utility. (6 marks)
b) Explain four limitations of law equi marginal utility. (8 marks)
c) Explain six advantages of economic integration to a member state. (6 marks)

(Total: 20 marks)

QUESTION FOUR

a) Distinguish between "devaluation" and "depreciation" of a currency. (4 marks)
b) Explain four conditions that must hold for devaluation of a currency to be effective in developing countries. (10 marks)
c) Summarize the role of the industrial sector in economic development. (6 marks)

(Total: 20 marks)
QUESTION FIVE

a) Using an example, determine the relationship between the multiplier and marginal propensity to consume. (4 marks)
b) Explain four factors that limit the effectiveness of the multiplier in developing countries. (8 marks)
c) Outline four causes of wage differentials between the agricultural and the industrial based occupations. (8 marks)

(Total: 20 marks)

QUESTION SIX

a) Using the Phillips curve, explain the theoretical relationship between inflation and unemployment. (5 marks)
b) Explain why unemployment is a major issue in developing countries. (10 marks)
c) With the aid of an appropriate diagram, explain why a loss-making firm under perfect competition continues in the production of goods and services in the short run. (5 marks)

(Total: 20 marks)

QUESTION SEVEN

a) Justify the need to estimate the national income of a country. (6 marks)
b) Outline six challenges encountered by economic planners when estimating the national income in developing countries. (6 marks)
c) Describe four policy measures that developing countries could adopt to reduce regional imbalances. (8 marks)

(Total: 20 marks)