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Paper 2

1. (a) Explain six circumstances which may make an insurance company not to compensate the Insured in the event of loss. (12mks) *Kyo*
- (b) Explain four factors that influence the incidence of tax. (8mks) *Kyo*
2. (a) Explain five monetary instruments used by the government to reduce the supply of money in an economy. (10mks) *Kyo*
- (b) Explain five reasons why firms with popular products find it necessary to continually advertise the same products. (10mks) *Kyo*
3. (a) The Kenya shilling has been depreciating in relation to the Sterling pound.
 - (i) Define the term depreciation. (2mks) *Kyo*
 - (ii) Explain four disadvantages of this process to Kenya's economy. (8mks) *Kyo*
- (b) Explain five assumptions of monopolistic competition. (10mks) *Kyo*
4. (a) Discuss five causes of unemployment in Kenya. (10mks) *Kyo*
- (b) Air transport is popular among businessmen even though it is expensive. Explain five reasons why businessmen opt for air transport. (10mks) *Kyo*
5. (a) Explain five characteristics of under-development. (10mks) *Kyo*
- (b) Explain five advantages that accrue to a country as a result of foreign firms locating their enterprises in the country. (10mks) *Kyo*
6. The following information relates to Soittara Enterprises for the year ending 31st December 2005.

	Sh.
Gross profit	18000
Transport out	3000
Discount allowed	2000
Rent received	5000
Sundry expenses	3000
Salaries	5000
Insurance	2200

Required:

- a) (i) Prepare the profit and loss account for Soittara Enterprises for the year ending 31st December 2005. (5mks) *Kyo*
- (ii) Give the importance of the profit and loss account. (5mks) *Kyo*
- b) Discuss five problems encountered when computing the consumer price index of commodities. (10mks) *Kyo*