



ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 23 November 2020.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Explain four benefits of studying economics. (4 marks)
- (b) Outline five applications of the law of diminishing marginal utility in decision making. (5 marks)
- (c) The demand for commodity X in a certain market has gone down.
Explain six factors that might have caused the decline. (6 marks)
- (d) With reference to the theory of production, identify five disadvantages of adopting capital intensive technique of production. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between "price elasticity of demand" and "price elasticity of supply". (4 marks)
- (b) With reference to decision making, discuss three practical applications of the concept of price elasticity in an economy. (6 marks)
- (c) The total revenue and total cost function of a firm operating under a perfectly competitive market is given below:

$$TR = 42Q - 0.5Q^2$$

$$TC = 40Q - 120Q + 150$$

Where: TR is the total revenue.
TC is the total cost.
Q is the quantity.

Required:

- Determine the profit maximising level of output (Q). (4 marks)
- (d) Outline six diseconomies of scale to a firm. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Suggest four policy measures that a government might put in place to enhance occupational mobility of labour in an economy. (8 marks)
- (b) Analyse four factors that determine the demand for labour in an economy. (8 marks)
- (c) Outline four factors that could lead to decreasing returns to scale in the production process. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The following information relates to a hypothetical economy of country X in billions of shillings:

$$C = 150 + 0.75Y.$$
$$I = 75.$$
$$G = 20.$$

Where: C = Consumption expenditure.
I = Investment expenditure.
G = Government expenditure.

Required:

- (a) The equilibrium level of national income. (4 marks)
 - (b) Outline five challenges associated with the product approach of measuring national income. (5 marks)
 - (c) Summarise six benefits of restrictions in international trade to an economy. (6 marks)
 - (d) Identify five disadvantages of duopoly market structure. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

(a) Distinguish between the following set of terms:

- (i) "Imported inflation" and "administered inflation". (2 marks)
 - (ii) "Structural unemployment" and "disguised unemployment". (2 marks)
 - (b) Explain three non-monetary policies that might be adopted by the government in order to control inflation. (6 marks)
 - (c) Identify six effects of depreciation of a currency in an economy. (6 marks)
 - (d) Summarise four benefits of economic planning in an economy. (4 marks)
- (Total: 20 marks)**

QUESTION SIX

(a) The demand and supply functions for commodity X is represented by:

$$Q_D = 50 - 0.6P.$$
$$Q_S = 32 + 0.3P.$$

Where: Q_D is the quantity demanded.
 Q_S is the quantity supplied.
P is the price.

Required:

- (i) The market equilibrium price and quantity demanded for commodity X. (6 marks)
 - (ii) The point elasticity of demand for commodity X when price is Sh.10. (3 marks)
 - (iii) Interpret your results in (a) (ii) above. (1 mark)
 - (b) Summarise five factors that determine interest rates in an economy. (5 marks)
 - (c) Explain five roles played by the manufacturing industry in economic development of a country. (5 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Examine three limitations of using cardinal approach to measure utility. (6 marks)
 - (b) Discuss four assumptions that govern consumer behaviour. (8 marks)
 - (c) Identify six measures that a country might adopt to effectively manage external debt. (6 marks)
- (Total: 20 marks)**

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