

KASNEB

ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 21 November 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Distinguish between “positive economics” and “normative economics”. (4 marks)
- (b) Summarise eight benefits of specialisation of trade. (8 marks)
- (c) The market for a certain commodity is represented by the following functions:

$$Q + \frac{1}{3}P = 10$$

$$Q + 15 = 4P$$

Where;

P is the price of the commodity.

Q is the quantity supplied.

Required:

The equilibrium price and quantity of the commodity.

(8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline six factors that lead to a leftward shift in the supply curve. (6 marks)
- (b) Describe four applications of the indifference curve analysis. (4 marks)
- (c) Distinguish between “inelastic demand” and “inelastic supply” for a commodity. (4 marks)
- (d) Explain six limitations of consumer sovereignty. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline two properties of isoquant curves. (2 marks)
- (b) Explain four factors that determine demand for labour in an economy. (4 marks)
- (c) Justify the need for negotiation of higher wages by trade unions. (4 marks)
- (d) Discuss five factors that are responsible for wage differentials within the same occupation. (10 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) With reference to national income, explain the concept of multiplier as applied in an economy. (4 marks)
- (b) Summarise six problems associated with the product approach of measuring national income. (6 marks)
- (c) With the aid of a well labelled diagram, explain the circular flow of income for a closed economy with government intervention. (6 marks)
- (d) Explain four arguments in favour of development planning in developing countries. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) A plastic manufacturing firm sells 100 units of its product at a price of Sh.10 each and has a fixed cost of Sh.200 and marginal cost of Sh.4.

Required:

- (i) The firm's profit. (3 marks)
- (ii) The average cost. (2 marks)

(b) Using a well labelled diagram, explain three reasons why the short-run average cost curve (SRAC) is above the long-run average cost curve (LRAC). (6 marks)

(c) Outline five benefits of mobility of factors of production in an economy. (5 marks)

(d) Identify four characteristics of a monopoly market structure. (4 marks)

(Total: 20 marks)

QUESTION SIX

(a) Country Y has had the value of its currency depreciate against the major currencies in the recent past.

Examine six effects of the loss of value of the currency to the economy of country Y. (6 marks)

(b) Discuss four reasons that make it possible for commercial banks to create credit for their customers. (8 marks)

(c) Outline six factors that limit effective implementation of monetary policy in developing countries. (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Identify four policy measures that might be used to control deflationary gap in an economy. (4 marks)

(b) A consumer in a certain economy has a current consumption of Sh.1,550 and a marginal propensity to consume of 0.75.

Required:

The consumer's savings function. (4 marks)

(c) Summarise six characteristics of a good development plan. (6 marks)

(d) Outline six reasons why the prices of agricultural products fluctuate more than those of manufactured goods. (6 marks)

(Total: 20 marks)

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