



ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 17 May 2021.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Outline six factors that might limit consumer sovereignty. (6 marks)
- (b) Summarise six demerits of a free market economic system. (6 marks)
- (c) The following information relates to the quantity consumed of commodity X at different prices and income levels of a consumer:

Quantity	Price (Sh.)	Income (Sh.)
I 120 units	160	60,000
II 100 units	180	50,000

Required:

- (i) Determine the price and income elasticity of demand of commodity X. (6 marks)
- (ii) On the basis of your results in (c) (i) above, explain the nature of commodity X. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Analyse three exceptions to the law of supply. (6 marks)
- (b) Using relevant examples, explain two leakages from the circular flow of income. (4 marks)
- (c) Identify six factors that might lead to a rightward shift in the demand curve. (6 marks)
- (d) State four conditions for consumer rationality as used in economics. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Argue six cases against the monopoly market structure. (6 marks)
- (b) Outline four features of the oligopolistic market structure. (4 marks)
- (c) The following data represents the demand function and total cost function of a monopolist:

$$\begin{aligned} P &= 140 - 2q && \text{Where: } P \text{ is the price} \\ TC &= 10 + 5q^2 && q \text{ is the quantity} \\ &&& TC \text{ is the total cost} \end{aligned}$$

Required:

- Compute the quantity, price and profit maximising level of output of the monopolist. (6 marks)
- (d) Summarise two reasons why the marginal cost curve cuts the average cost curve at the lowest point. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain six characteristics of money. (6 marks)
 - (b) Analyse six negative effects of inflation to an economy. (6 marks)
 - (c) In relation to the theory of production, illustrate the shutdown point for a firm. (6 marks)
 - (d) Explain the term “cross elasticity of demand” as used in economics. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Summarise five attributes of economic development in a country. (5 marks)
 - (b) Suggest six policy measures that the government might use to promote economic development in a country. (6 marks)
 - (c) Analyse five factors that could be responsible for wage differentials between occupations. (5 marks)
 - (d) Differentiate between “marginal revenue product of labour” and “average revenue product of labour”. (4 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Explain five advantages of international trade to a country. (5 marks)
 - (b) Describe five methods of trade restrictions in international trade. (5 marks)
 - (c) State five measures that might be put in place to control the level of budget deficit in least developed countries. (5 marks)
 - (d) Outline five factors that could determine the level of national income in a country. (5 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) State four factors that would limit the effectiveness of fiscal policy instruments in developing countries. (4 marks)
 - (b) Describe five effects of a decrease in money supply in an economy. (5 marks)
 - (c) Using Phillips curve, explain the statistical relationship between unemployment and inflation rate. (6 marks)
 - (d) Suggest five advantages of economies of scale to a firm. (5 marks)
- (Total: 20 marks)**
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