



**kasneb**

**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**ECONOMICS**

**TUESDAY: 18 May 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Evaluate four ways in which the government could influence allocation of resources in a country. (8 marks)
- (b) Explain using formulae, the difference between “arc elasticity” and “point elasticity” of demand. (4 marks)
- (c) (i) Define the term “Consumer Sovereignty” as used in economics. (2 marks)
- (ii) Summarise six limitations of consumer sovereignty in an economy. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Highlight the effects of removing interest rate capping in an economy. (5 marks)
- (b) Identify four reasons why governments intervene with the operations of price mechanism. (8 marks)
- (c) Outline seven factors that influence the elasticity of supply of a commodity. (7 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Using indifference curve analysis, demonstrate how an individual’s equilibrium point is attained. (4 marks)
- (b) With particular interest on inferior goods, use the indifference curve analysis to demonstrate and explain the income and substitution effect of a fall in price. (6 marks)
- (c) Kenya, which is currently ranked as a developing country, came up with an economic blueprint geared towards realising economic development by the year 2030.

**Required:**

- (i) Describe five factors that might hinder Kenya from realising the above objective. (5 marks)
- (ii) Outline measures that might be put in place in order to overcome the impediments in (c) (i) above. (5 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Examine six causes of a deflationary gap in an economy. (6 marks)
- (b) (i) Define the term “monetary policy”. (2 marks)
- (ii) Explain five objectives of monetary policy in an economy. (5 marks)
- (c) Assess seven reasons why developing countries are concerned about the high rate of unemployment in their countries. (7 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

(a) The total cost and demand functions of a firm operating under monopolistic competition are represented as follows:

$$\begin{aligned} TC &= 850 - 8Q + 10Q^2 \\ P &= 200 \end{aligned}$$

Where:

$$\begin{aligned} TC &= \text{Total costs} \\ Q &= \text{Output} \\ P &= \text{Price} \end{aligned}$$

**Required:**

- (i) Fixed cost function. (1 mark)
  - (ii) Variable cost function. (1 mark)
  - (iii) Average cost function. (1 mark)
  - (iv) Marginal cost function. (2 marks)
  - (v) Marginal revenue function. (2 marks)
  - (vi) The level of output at which the firm breaks-even. (3 marks)
- (b) Examine five reasons for deteriorating terms of trade for developing countries. (10 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) (i) Describe the term “economic integration”. (2 marks)
  - (ii) Highlight six factors that limit successful economic integration in developing countries. (6 marks)
- (b) Examine four advantages of currency devaluation to a country’s economy. (8 marks)
- (c) With the use of a diagram, illustrate the optimal point of a firm. (4 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Enumerate seven roles of commercial banks in an economy. (7 marks)
  - (b) (i) With a well labelled diagram, illustrate the concept of economic rent. (5 marks)
  - (ii) Explain how economic rent might be used as a good base for taxation. (3 marks)
- (c) With the aid of a diagram distinguish between “actual economic growth” and “potential economic growth”. (5 marks)
- (Total: 20 marks)**
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