



CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

**ECONOMICS**

**TUESDAY: 31 August 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) (i) Highlight four factors that determine the supply of a good or service. (4 marks)
- (ii) Using appropriate diagrams, explain the difference between “a movement along a supply curve” and “a shift in a supply curve”. (8 marks)
- (b) Explain the following terms in relation to labour as a factor of production:
- (i) Participation rate. (2 marks)
  - (ii) Real wages. (2 marks)
  - (iii) Labour productivity. (2 marks)
  - (iv) Derived demand. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the term “marginal factor cost”. (2 marks)
- (b) The government has given a subsidy on the consumption of commodity Y.  
Using a diagram for illustration, explain the effect of the above action on market equilibrium for commodity Y. (5 marks)
- (c) Justify five reasons why devaluation in developing countries tends to be inflationary. (5 marks)
- (d) With the help of a well labelled diagram, distinguish between “economic rent” and “quasi rent”. (6 marks)
- (e) Using a suitable example, explain the term “transfer payments”. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight six economic factors that may contribute to poor performance of the agricultural sector in developing countries. (6 marks)
- (b) With the aid of an illustration, describe the circular flow of income for a closed economy with the existence of the government. (8 marks)
- (c) Analyse three factors that may limit independence of the central bank in carrying out its mandate in an economy. (6 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) Identify three uses of consumer surplus. (6 marks)
- (b) With the help of a diagram, explain the marginal efficiency of capital. (5 marks)
- (c) Highlight five implications of a deflationary gap in an economy. (5 marks)
- (d) Given the demand function:

$$\text{Quantity (Q)} = 40 + 15Q - 2Q^2 + \frac{10}{Q}$$

**Required:**

- (i) Point elasticity of demand  
When;  
Price (P) = 10  
Quantity (Q) = 75 (3 marks)
- (ii) Interpret your results. (1 mark)

**(Total: 20 marks)**

#### QUESTION FIVE

- (a) Collusion may be a feature of an oligopolistic market.  
With reference to the above statement, explain the term “collusion”. (2 marks)
- (b) Collusive practices may be undermined by price wars.  
Assess three benefits that might accrue to consumers as a result of price wars by firms. (6 marks)
- (c) You have been provided with the following data for country Z:

Gross national product at current market prices \$400 million  
Price subsidies \$10 million  
Depreciation \$24 million  
Indirect taxes \$60 million

**Required:**

Determine the value of each of the following:

- (i) Gross national product at factor cost. (3 marks)
- (ii) Net national product at factor cost. (3 marks)
- (d) Discuss three roles played by the International Monetary Fund (IMF) in the world economy. (6 marks)

**(Total: 20 marks)**

#### QUESTION SIX

- (a) (i) Explain the term “price discrimination”. (2 marks)
- (ii) Using examples in each case, examine three types of price discrimination. (9 marks)
- (b) Identify four effects of Covid-19 pandemic on the world economy. (4 marks)
- (c) (i) Define the term “free enterprise economic system.” (1 mark)
- (ii) Highlight four economic advantages of free enterprise economic system. (4 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

- (a) (i) Explain the term “credit creation”. (2 marks)
- (ii) Evaluate four factors that limit the effectiveness of credit creation by commercial banks. (8 marks)

(b) The data below represents the national income of a certain economy in trillions of shillings:

$$Y = C + I + G + (X - M)$$

$$C = 100 + 0.6Y^d$$

$$T = 10 + 0.2Y$$

$$I = 40$$

$$G = 50$$

$$(X - M) = 30$$

Where: Y = National Income

C = Consumption expenditure

I = Investment

G = Government expenditure

$Y^d$  = Disposable income

T = Taxes

X = Exports

M = Imports

**Required:**

The equilibrium level of:

- (i) National income. (5 marks)
- (ii) Consumption. (3 marks)
- (iii) Taxes. (2 marks)

**(Total: 20 marks)**

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