



kasneb

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 27 November 2018.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Differentiate between “economic resources” and “non economic resources”. (1 mark)
- (b) (i) Explain the term “consumer sovereignty” as used in economics. (1 mark)
- (ii) Outline eight factors that hinder consumers’ sovereignty. (8 marks)
- (c) Enumerate five factors that determine the price elasticity of demand of a commodity. (5 marks)
- (d) Highlight five barriers to occupational mobility of labour. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) With the aid of an appropriate diagram, explain the concept of “shortage” as used in market equilibrium. (4 marks)
- (b) Discuss seven effects of price decontrol in an economy. (7 marks)
- (c) The demand and supply functions of commodities x and y are given as:

$$Q_{dx} = 4 - P_x + 0.5P_y$$

$$Q_{dy} = 10 + P_x - P_y$$

$$Q_{sx} = -3 + 4P_x$$

$$Q_{sy} = -18 + 4P_y$$

Where: Q_{dx} is the quantity demanded of x in thousands of units.
 Q_{dy} is the quantity demanded of y in thousands of units.
 Q_{sx} is the quantity supplied of x in thousands of units.
 Q_{sy} is the quantity supplied of y in thousands of units.
 P_x is the price of x in thousands of shillings.
 P_y is the price of y in thousands of shillings.

Required:

- (i) The equilibrium price and quantity of commodity x. (4 marks)
- (ii) The equilibrium price and quantity of commodity y. (4 marks)
- (iii) Explain the nature of relationship between commodity x and commodity y. (1 mark)

(Total: 20 marks)

QUESTION THREE

- (a) Summarise six characteristics of capital as a factor of production. (6 marks)
- (b) Examine six applications of indifference curve analysis in an economy. (6 marks)
- (c) Discuss four cases advanced by trade unions for increase in the wages of their members. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Highlight five characteristics of a mixed economic system. (5 marks)
- (b) State four advantages and four disadvantages of a monopoly market structure in an economy. (8 marks)
- (c) The marginal propensity to save of a certain hypothetical economy is given as 0.25.

Required:

The change in the equilibrium level of national income, if the level of investments for the economy increases by Sh.300 million. (3 marks)

- (d) A firm operating under a monopoly market structure has the following demand and cost functions:

$$P = 140 - 2Q$$
$$TC = 10 + 5Q^2$$

Where:

P is the price in thousands of shillings.

Q is the quantity of output in thousands of units.

TC is the total cost in thousands of shillings.

Required:

The maximum level of profit of the firm. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain five negative effects of a contractionary monetary policy in an economy. (5 marks)
- (b) Outline five limitations of adopting export promotion strategy in developing countries. (5 marks)
- (c) Using appropriate diagrams, analyse the following levels of output of a monopolist firm in the short-run period:
- (i) The profit maximising level of output. (5 marks)
- (ii) The loss making level of output. (5 marks)

(Total: 20 marks)

QUESTION SIX

- (a) Suggest six measures that developing countries could adopt to curb against high levels of urban unemployment. (6 marks)
- (b) Examine seven determinants of the level of national income of a country. (7 marks)
- (c) Discuss seven disadvantages of adopting an import substitution strategy to control unfavourable balance of payments in a developing country. (7 marks)

(Total: 20 marks)

QUESTION SEVEN

- (a) (i) Explain the term "hyperinflation" as used in economics. (1 mark)
- (ii) With the help of a diagram, describe demand pull inflation. (4 marks)
- (iii) Highlight three causes of demand pull inflation in an economy. (3 marks)
- (b) Analyse six obstacles to industrial development in developing countries. (6 marks)
- (c) The data provided below represent economic transactions for a hypothetical country in billions of shillings:

| | Total output | Intermediate purchases |
|----------------------|--------------|------------------------|
| Agricultural sector | 55,000 | 24,000 |
| Manufacturing sector | 96,000 | 63,000 |
| Service sector | 71,000 | 42,000 |

The indirect taxes and fixed assets depreciation amount to Sh.22,000 billion and Sh.26,000 billion respectively.

Required:

- (i) The Gross National Product using the value added approach. (2 marks)
- (ii) Net Domestic Product at market price. (2 marks)
- (iii) Net Domestic Product at factor cost. (2 marks)

(Total: 20 marks)