



kasneb

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

WEDNESDAY: 27 November 2019.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

**QUESTION ONE**

- (a) Examine four limitations of a planned economic system. (4 marks)
- (b) With the aid of a diagram, explain the concept of production possibility curve. (5 marks)
- (c) With the help of a diagram, illustrate the concept of surplus as applied in the theory of market equilibrium. (5 marks)
- (d) The following equations are given:

$$Q = -10 + 6P \dots\dots\dots \text{equation (i)}$$
$$Q = 20 - 4P \dots\dots\dots \text{equation (ii)}$$

**Required:**

- (i) Giving reasons, identify the demand function and the supply function. (2 marks)
- (ii) Determine the equilibrium price and quantity. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Evaluate three fundamental economic issues that a society has to address to minimise the problem of scarcity of resources. (6 marks)
- (b) Explain five factors that lead to the external economies of scale in an economy. (10 marks)
- (c) Describe two assumptions of the law of variable proportions. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight four assumptions of consumer rationality. (4 marks)
- (b) With the aid of a well labelled diagram, explain the concept of a backward bending supply curve of labour. (6 marks)
- (c) A firm operating under perfect competition observed that:
- At a unit price of Sh.20 of product "R", 600 units were sold.
  - At an increased price of Sh.70, the sales of product "R" decreased by 500 units.
  - The relationship between the price of product "R" and the quantity sold of product "R" is linear.
  - The total cost (TC) of product "R" is given by the function:

$$TC = 0.9q^2 + 30q + 1,000$$

Where q is the quantity of product "R" produced and sold.

**Required:**

- (i) The revenue function of product “R”. (4 marks)
- (ii) The profit earned at equilibrium. (4 marks)
- (iii) The equilibrium price. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) The per capita income of a hypothetical country increased by 20% from the year 2015 to year 2018.

Despite this increase in per capita income, the residents of the country felt that their living standards were deteriorating.

**Required:**

Discuss five reasons that might have led to this feeling by the residents. (10 marks)

- (b) Describe three methods that could be used to measure the national income of a country. (6 marks)

- (c) The following are the consumption and investment functions of country Y in Sh. “Billion”.

$$\begin{aligned} C &= 200 + 0.8Y \\ I &= 400 \end{aligned}$$

Where:

C is Consumption

Y is Income

I is Investment

**Required:**

Calculate the aggregate spending at equilibrium level. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Examine four benefits of a contractionary monetary policy to an economy. (4 marks)

- (b) Explain six factors that determine the level of induced investments in an economy. (6 marks)

- (c) The value of money varies inversely with the level of prices.

With reference to the above statement, justify six positive economic effects of a prolonged fall in the value of money in an economy. (6 marks)

- (d) With the aid of a well labelled diagram, explain the trade-off between inflation and unemployment level. (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

- (a) Identify four reasons against international trade restrictions. (8 marks)

- (b) Summarise four functions of World Trade Organisation (WTO). (4 marks)

- (c) The citizens of your country have raised concern over the increased rate of Foreign Direct Investment in your country.

**Required:**

Assess four cases in favour of and four cases against Foreign Direct Investment in an economy. (8 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

- (a) Enumerate five causes of inequalities in the distribution of income and wealth in an economy. (5 marks)

- (b) Explain five benefits of development planning in an economy. (5 marks)

- (c) Distinguish between “depreciation of a currency” and “demonetisation of the currency”. (4 marks)

- (d) Highlight six possible effects of demonetisation of the currency. (6 marks)

**(Total: 20 marks)**