



ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 26 November 2018.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Argue six cases in favour of specialisation of trade. (6 marks)
- (b) Highlight five characteristics of a free market system in an economy. (5 marks)
- (c) Citing relevant examples, distinguish between “substitutes” and “compliments” as used in economics. (4 marks)
- (d) Identify five factors that might lead to a rightward shift in the supply curve. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) The quantity supplied of a commodity is 60 units when the prevailing price is 45 Shillings. However, when the price rises to 50 Shillings, the quantity supplied of the commodity increases to 75 units.

Required:

- (i) The price elasticity of supply. (3 marks)
- (ii) Interpret your results in (a)(i) above. (2 marks)
- (b) Outline five demerits of fixing a maximum price of a commodity in an economy. (5 marks)
- (c) Distinguish between the “real sector” and the “monetary sector” of an economy. (4 marks)
- (d) Summarise six roles of commercial banks in an economy. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Identify four factors that determine wages of workers in an economy. (4 marks)
- (b) Differentiate between “isocost line” and “isoquant” as applied in the theory of production. (4 marks)
- (c) Discuss four types of mobility of labour as a factor of production. (8 marks)
- (d) Explain four measures that could be adopted in an economy to control against a deflationary gap. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the concept of multiplier as used in economics. (2 marks)
- (b) Analyse four roles of the multiplier in an economy. (8 marks)
- (c) With the aid of a diagram, explain a firm’s expansion path. (6 marks)
- (d) Illustrate the concept of consumer surplus as applied in the theory of consumer behaviour. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the term “quasi rent” as applied in the theory of production. (2 marks)
 - (b) Highlight eight factors that limit economic growth and development in developing countries. (8 marks)
 - (c) Enumerate six causes of unemployment in an economy. (6 marks)
 - (d) With the aid of a well labelled diagram, explain the long run equilibrium of a firm operating under perfect competition. (4 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Summarise four benefits of international trade to developing countries. (4 marks)
 - (b) Suggest five challenges facing economic integration in developing countries. (5 marks)
 - (c) Outline six economic effects of inflation to an economy. (6 marks)
 - (d) Identify five measures that might be adopted in an economy to overcome the challenges of development planning. (5 marks)
- (Total: 20 marks)**

QUESTION SEVEN

(a) The consumption function of a hypothetical economy is given as follows:

$$C = 50 + 0.75Y^d$$

Where: Y^d is the disposable income.

Required:

- (i) The marginal propensity to save. (2 marks)
 - (ii) The level of consumption assuming income of 500 Shillings and a tax rate of 25%. (3 marks)
- (b) Describe five methods employed by the government to influence allocation of resources in an economy. (5 marks)
 - (c) Explain five factors that might limit consumer sovereignty. (5 marks)
 - (d) Outline five characteristics of a market operating under duopoly market structure. (5 marks)
- (Total: 20 marks)**
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