

KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

MONDAY: 23 November 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) With the aid of a diagram, describe the concept of unstable market equilibrium. (5 marks)
- (b) "All giffen goods are inferior goods but not all inferior goods are giffen goods".
Using a relevant diagram, explain the above statement. (5 marks)
- (c) Argue five cases for and five cases against specialisation as a method of production. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline four arguments upon which trade unions base their demand for increase in wages for unionisable employees. (4 marks)
- (b) State six effects of price decontrols to an economy. (6 marks)
- (c) Analyse six uses of elasticity of demand in decision making. (6 marks)
- (d) The following information relate to the price per unit and quantity supplied of a certain product:

Price per unit (Sh.)	12	10	8	5	2
Quantity supplied (Units)	12,000	11,000	9,000	6,000	0

Required:

- Price elasticity of supply when price decreases from Sh.10 per unit to Sh.5 per unit. Interpret your result. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the term "optimal size of a firm". (2 marks)
- (b) With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make super normal profits in the short-run. (5 marks)
- (c) (i) Summarise seven barriers to geographical mobility of labour as a factor of production. (7 marks)
- (ii) Highlight six measures that could be adopted by a government to enhance mobility of labour. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline five problems associated with the expenditure approach of measuring the national income of a country. (5 marks)
- (b) Enumerate five changes in the tax policy that could be implemented by a government to spur growth in the agricultural sector. (5 marks)
- (c) The following information relates to savings and investments of a certain economy in millions of shillings:

$$S = - 500 + 0.36Y$$

$$I = 8.000$$

Where:

S = Savings function.

Y = National income.

I = Investments function.

Required:

- (i) The consumption function. (3 marks)
- (ii) The equilibrium level of national income. (3 marks)
- (iii) The multiplier. Interpret your result. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Describe five instruments of monetary policy that could be used to control the level of money supply in an economy. (10 marks)
- (b) Discuss five factors that limit the effectiveness of monetary policies in developing countries. (10 marks)

(Total: 20 marks)

QUESTION SIX

- (a) Explain four effects of inflation on the functions of money. (8 marks)
- (b) (i) Outline six causes of high levels of external debts in developing countries. (6 marks)
- (ii) Summarise six policies that could be adopted to combat the problem of high levels of external debts in developing countries. (6 marks)

(Total: 20 marks)

QUESTION SEVEN

- (a) Highlight five determinants of money supply in an economy. (5 marks)
- (b) Describe five differences between commercial banks and non-banking financial institutions. (10 marks)
- (c) The data provided below represent estimated national income figures for country "X" in trillion of shillings:

Gross National Product (at market price)	620.4
Government transfers	78.6
Business taxes	18.2
Personal income taxes	56.1
Depreciation allowance	42.3
Indirect taxes less subsidies	36.5

Required:

- (i) Net National Income at factor cost. (2 marks)
- (ii) Net National Product at market price. (1 mark)
- (iii) Personal income. (1 mark)
- (iv) Disposable income for country "X". (1 mark)

(Total: 20 marks)