

# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

- (a) (i) Distinguish between “gross domestic product” and “gross national product”. (4 marks)
- (ii) Give the reasons for the lower value of the gross national product in the less developing countries. (1 mark)
- (b) The following data represents economic transactions of a hypothetical economy:

Sh. “million”

General government final expenditure	6,750
Taxes on expenditure	4,250
Transfer payments	675
Social security contributions	2,500
Net property income from abroad	250
Consumers expenditure	18,500
Subsidies	750
Gross domestic fixed capital formation	5,750
Corporate income tax	750
Undistributed profits	500
Personal income tax	1,000
Imports of goods and services	9,250
Exports of goods and services	8,750
Depreciation	3,500

### Required:

Calculate:

- (i) Gross national product. (2 marks)
- (ii) Net national product. (2 marks)
- (iii) National income. (2 marks)
- (iv) Personal income. (2 marks)
- (v) Disposable income. (2 marks)
- (c) Briefly explain five functions of money. (5 marks)

(Total: 20 marks)

## QUESTION TWO

- (a) Highlight five features of a firm under perfect competition. (5 marks)
- (b) With the aid of a diagram, show that  $MC=MR$  is just a necessary but not sufficient condition for profit maximisation. (4 marks)
- (c) In the short-run, a monopolist does not necessarily have to make profits; he can make losses. Whether he makes a profit or a loss depends on the position of the short-run total cost curve (SATC) at the short-run equilibrium.
- Using an appropriate diagram, discuss the conditions for the loss minimisation of a monopolist. (5 marks)
- (d) Under monopolistic competitive markets the products are usually differentiated yet they are very close substitutes for one another.
- Explain the main types of product differentiation in monopolistic competitive market. (6 marks)
- (Total: 20 marks)**

## QUESTION THREE

- (a) Giving examples, distinguish between "fixed costs" and "variable costs". (4 marks)
- (b) A firm operating in the short-run period has a fixed cost of Sh.8,600. The table below shows its total variable cost and the units of output:
- | Units of output:            | 0 | 1    | 2    | 3    | 4     | 5     | 6     | 7     | 8     | 9     | 10    |
|-----------------------------|---|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Total variable costs (Sh.): | 0 | 3040 | 5680 | 8000 | 10080 | 12000 | 14000 | 16240 | 18960 | 22480 | 26880 |
- Required:**  
For each level of output, calculate the firm's total cost, average total cost, average variable cost, average fixed cost and marginal cost giving your solution in columnar form/tabular form. (10 marks)
- (c) Using an appropriate diagram for each case, explain the three properties of isoquants. (6 marks)
- (Total: 20 marks)**

## QUESTION FOUR

- (a) One of the main functions of a central bank is the effective implementation of the monetary policies.
- Discuss the main instruments of monetary policies. (10 marks)
- (b) Distinguish between "economic growth" and "economic development". (4 marks)
- (c) Briefly explain the effects of high levels of inflation in an economy. (6 marks)
- (Total: 20 marks)**

## QUESTION FIVE

- (a) Using the indifference curve margins, discuss how the consumers equilibrium is obtained. Use an appropriate diagram to illustrate your answer. (6 marks)
- (b) With the help of well illustrated diagrams, draw the substitution effect and income effect of:
- (i) A normal good.
- (ii) An inferior good. (8 marks)
- (c) Briefly explain the concept of elasticity of demand in the economic management policy decision making. (6 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) Most developing countries experience deficits in their balance of payments.

Explain the various methods that could be used by these countries to correct deficits in their balance of payments.

(10 marks)

- (b) Explain three types of unemployment.

(6 marks)

- (c) Using the Phillips curve, explain the relationship between unemployment and inflation.

(4 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

- (a) Briefly explain five factors that could affect the price elasticity of supply.

(5 marks)

- (b) (i) State the law of diminishing marginal returns.

(2 marks)

(ii) With the aid of a diagram, explain the three stages of production according to this law.

(8 marks)

- (c) Highlight five functions of trade unions.

(5 marks)

**(Total: 20 marks)**

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