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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)**