

KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 24 May 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Outline four assumptions underlying consumer equilibrium. (4 marks)
- (b) With the aid of a diagram, explain the production possibility frontier. (5 marks)
- (c) Summarise five ways through which the government could influence the allocation of resources in a free market economy. (5 marks)
- (d) Explain how the concept of elasticity of demand guides economic decision making in the following areas:
- (i) Government tax policy on household consumption. (2 marks)
 - (ii) Devaluation policy. (2 marks)
 - (iii) Price discrimination by a monopolist. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Differentiate between the following sets of terms as used in economics:
- (i) "Structural unemployment" and "keynesian unemployment". (2 marks)
 - (ii) "Narrow money" and "broad money". (2 marks)
- (b) Highlight five disadvantages of the monopoly market structure. (5 marks)
- (c) A certain market for commodity x contains 1,000 identical consumers, each having a demand function given as:

$$Q_{d_x} = 12 - 2p_x.$$

The market contains 100 identical producers of commodity x, each with a supply function given by $Q_{s_x} = 20p_x$.

Q_{d_x} is the quantity demanded of x.

Q_{s_x} is the quantity supplied of x.

P_x is the price of x.

Required:

- (i) The market demand and market supply functions of commodity x. (4 marks)
 - (ii) Using indifference curve analysis, illustrate the effect of a government subsidy on commodity x to low income earners. (7 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss five policy measures that developing countries could adopt to reduce regional imbalances. (5 marks)
- (b) Using a well labelled diagram, evaluate the effect of simultaneous increase in demand and decrease in supply on equilibrium price and quantity of a commodity. (5 marks)
- (c) Discuss five causes of the U-shaped long-run average cost curves of a firm. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Enumerate six barriers to occupational mobility of labour. (6 marks)
- (b) Illustrate the close down price of a firm operating under perfect competition. (6 marks)
- (c) Outline eight roles of commercial banks in boosting the economic development of a country. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain five factors that determine the macroeconomic level of consumption in an economy. (10 marks)
- (b) The following data relate to the commodity and money markets of a hypothetical closed economy without government intervention, in millions of shillings:

$$\begin{aligned}C &= 204 + 0.7Y \\I &= 300 - 100r \\M_{DT} &= 0.25Y \\M_{DS} &= 248 - 200r \\M_S &= 600\end{aligned}$$

Where: C is the consumption function.
Y is the national income.
I is the investments function.
r is the rate of interest.
 M_{DT} is the precautionary and transactionary demand for money.
 M_{DS} is the speculative demand for money.
 M_S is the money supply.

Required:

- (i) Equilibrium level of interest rate. (7 marks)
- (ii) Equilibrium level of national income. (3 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Explain the term "balance of payments" as used in international trade. (2 marks)
- (b) With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make losses in the short-run. (6 marks)
- (c) Examine six roles of non-banking financial institutions in an economy. (6 marks)
- (d) Describe three ways in which a government could use fiscal policy to stimulate economic growth. (6 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Summarise five causes of inflation in developing countries. (5 marks)
- (b) Highlight eight arguments in favour of international trade restrictions in a country. (8 marks)
- (c) State seven economic goals of developing countries. (7 marks)
- (Total: 20 marks)**