



ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 23 November 2020.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Explain four benefits of studying economics. (4 marks)
- (b) Outline five applications of the law of diminishing marginal utility in decision making. (5 marks)
- (c) The demand for commodity X in a certain market has gone down.  
Explain six factors that might have caused the decline. (6 marks)
- (d) With reference to the theory of production, identify five disadvantages of adopting capital intensive technique of production. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between “price elasticity of demand” and “price elasticity of supply”. (4 marks)
- (b) With reference to decision making, discuss three practical applications of the concept of price elasticity in an economy. (6 marks)
- (c) The total revenue and total cost function of a firm operating under a perfectly competitive market is given below:

$$TR = 42Q - 0.5Q^2$$

$$TC = 40Q - 120Q + 150$$

Where: TR is the total revenue.  
TC is the total cost.  
Q is the quantity.

Required:

- Determine the profit maximising level of output (Q). (4 marks)
- (d) Outline six diseconomies of scale to a firm. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Suggest four policy measures that a government might put in place to enhance occupational mobility of labour in an economy. (8 marks)
- (b) Analyse four factors that determine the demand for labour in an economy. (8 marks)
- (c) Outline four factors that could lead to decreasing returns to scale in the production process. (4 marks)

(Total: 20 marks)

**QUESTION FOUR**

(a) The following information relates to a hypothetical economy of country X in billions of shillings:

$$C = 150 + 0.75Y.$$

$$I = 75.$$

$$G = 20.$$

Where: C = Consumption expenditure.

I = Investment expenditure.

G = Government expenditure.

**Required:**

The equilibrium level of national income. (4 marks)

(b) Outline five challenges associated with the product approach of measuring national income. (5 marks)

(c) Summarise six benefits of restrictions in international trade to an economy. (6 marks)

(d) Identify five disadvantages of duopoly market structure. (5 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) Distinguish between the following set of terms:

(i) "Imported inflation" and "administered inflation". (2 marks)

(ii) "Structural unemployment" and "disguised unemployment". (2 marks)

(b) Explain three non-monetary policies that might be adopted by the government in order to control inflation. (6 marks)

(c) Identify six effects of depreciation of a currency in an economy. (6 marks)

(d) Summarise four benefits of economic planning in an economy. (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a) The demand and supply functions for commodity X is represented by:

$$Q_D = 50 - 0.6P.$$

$$Q_S = 32 + 0.3P.$$

Where:  $Q_D$  is the quantity demanded.

$Q_S$  is the quantity supplied.

P is the price.

**Required:**

(i) The market equilibrium price and quantity demanded for commodity X. (6 marks)

(ii) The point elasticity of demand for commodity X when price is Sh.10. (3 marks)

(iii) Interpret your results in (a) (ii) above. (1 mark)

(b) Summarise five factors that determine interest rates in an economy. (5 marks)

(c) Explain five roles played by the manufacturing industry in economic development of a country. (5 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

(a) Examine three limitations of using cardinal approach to measure utility. (6 marks)

(b) Discuss four assumptions that govern consumer behaviour. (8 marks)

(c) Identify six measures that a country might adopt to effectively manage external debt. (6 marks)

**(Total: 20 marks)**

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