



**ATD LEVEL III**

**PRINCIPLES OF ECONOMICS**

**MONDAY: 30 August 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) List five advantages of a controlled market system. (6 marks)
- (b) Distinguish between the law of “diminishing returns” and the “law of return to scale”. (4 marks)
- (c) Explain three stages of production as implied by the law of diminishing returns. (6 marks)
- (d) Suggest four policy measures that might be adopted by developing countries to reduce the level of unemployment. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) (i) Explain the term “diminishing marginal utility”. (2 marks)
- (ii) State three examples of exceptions to the law of diminishing utility. (3 marks)
- (b) Discuss five factors that are responsible for wage differentials within the same occupation. (10 marks)
- (c) Summarise five factors that influence the cost behaviour of a firm. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) With the aid of well labelled diagrams, distinguish between the following set of terms:
- (i) Change in supply and change in quantity supplied. (4 marks)
- (ii) Change in demand and change in quantity demanded. (4 marks)
- (b) List six ways a government could influence the allocation of resources in a country. (6 marks)
- (c) Identify six sources of monopoly powers. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Identify seven causes of demand pull inflation. (7 marks)
- (b) A firm’s market demand and total cost functions are given as:

$$\begin{aligned} P &= 50 - 0.5Q \\ TC &= 10 + 20Q + Q^2 \end{aligned}$$

Where; P = Price  
Q = Quantity  
TC = Total cost

**Required:**

- (i) The level of output which maximises profit. (4 marks)
  - (ii) The total profit of the firm. (4 marks)
  - (iii) Price at which the firm maximises profit. (5 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Distinguish between “injections” and “withdrawals” as applied in national income. (4 marks)
  - (b) Analyse four reasons why gross national product (GNP) figure is lower than gross domestic product (GDP) figure in developing countries. (4 marks)
  - (c) Discuss four problems encountered when measuring national income. (8 marks)
  - (d) Distinguish between “average propensity to consume” and “average propensity to save”. (4 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) Explain six reasons why external debt management is a major policy issue in developing countries. (6 marks)
  - (b) Summarise six factors that could limit economic planning in developing countries. (6 marks)
  - (c) State eight roles of agriculture in economic development. (8 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Explain the following terms:
    - (i) Composite demand. (2 marks)
    - (ii) Competitive supply. (2 marks)
  - (b) With the aid of relevant diagrams, explain the term market demand. (6 marks)
  - (c) The quantity demanded of a commodity is 50 units when the price is Sh.15. However, when the price rises to Sh.20, quantity demanded decreases to 30 units.

**Required:**

    - (i) Calculate the point price elasticity of demand. (3 marks)
    - (ii) Interpret your results in (c) (i) above. (2 marks)
  - (d) Explain five roles of commercial banks in an economy. (5 marks)
- (Total: 20 marks)**
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