



CPA FOUNDATION LEVEL

CIFA FOUNDATION LEVEL

ECONOMICS

December 2021.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) (i) Explain the concept of “consumer sovereignty” as applied in economic analysis. (2 marks)
- (ii) Highlight five factors that limit consumer sovereignty. (5 marks)
- (iii) ABC limited has been incurring losses over the last few years despite its monopolparastatal status. Using a well-illustrated diagram, demonstrate how a monopolist can make losses in the short-run. (5 marks)
- (b) Discuss the four main goals of macroeconomic policy in developing countries. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Highlight the characteristics of public goods. (5 marks)
- (b) The following economic functions have been derived from the Kenya Coffee Millers Limited:
- $$Q_a = 3p^2 - 4p \text{ and}$$
- $$Q_b = 24 - p^2; \text{ where } p \text{ represents price and } Q \text{ is quantity}$$

Required:

- (i) Which of the two functions represents a demand curve and supply curve. Cite relevant economic reasons. (4 marks)
- (ii) Determine the equilibrium price and quantity in the market (6 marks)
- (iii) Explain, with the aid of a diagram, the effect on the demand and supply functions indicated in (a) above of a simultaneous decrease in cost of inputs and a decrease in the price of a substitute good. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the term ‘Price control’. (4 marks)
- (b) Explain the circumstances under which price control is considered necessary. (5 marks)

The utility total function and other relevant variables related to a consumer are given as follows:

$$U = 20X - 4Z^2 + 40Z - X^2$$

Income $Y = \text{Kshs. } 48$
Price of $X (P_x) = \text{Kshs. } 2$
Price of $Z (P_z) = \text{Kshs. } 4$

Required:

- (i) Determine the equilibrium quantities of commodities x and z using the cardinalist approach to consumer behavior. (6 marks)
- (ii) Outline the axioms of the cardinalist approach to consumer behavior. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the importance of elasticity of supply in decision making. (6 marks)
- (b) Examine five factors that limit the effectiveness of the monetary policies in developing countries. (5 marks)
- (c) You are given the following information about the commodity and Money markets of a closed economy without government intervention:

The commodity market Consumption function:

$$C = 50 + 2/5Y$$

Investment function:

$$I = 790 - 21r$$

The Money Market:

Precautionary and Transactions demand for money $MDT = 1/6 Y$

Speculative demand for money $MDS = 1200 - 18r$

Money supply $MS = 1250$

Required:

- (i) Determine the equilibrium levels of income and interest rate for this economy. (6 marks)
- (ii) Using a well labeled diagram, illustrate the equilibrium condition in part (i) above. (3 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the meaning of mobility of factors of production and highlight the significance of factor mobility. (6 marks)
- (b) Outline the economic policy recommendations that would reduce regional development imbalances developing countries. (6 marks)

The table below represents economic transactions for country XYZ in billions of shillings:

	Total output	Intermediate purchases
Agriculture	130	110
Manufacturing	170	145
Services	155	125

Required:

- (i) Calculate the Gross National Product of this economy using the value added approach. (4 marks)
- (ii) If depreciation and indirect taxes equal 8 billion and 7 billion shillings respectively, find the Net Domestic Product both at Market prices and at factor cost. (4 marks)

(Total: 20 marks)

QUESTION SIX

- (a) Explain the term ‘Oligopoly’? (2 marks)
- (b) Analyse the challenges facing the formation of “cartels” in the oligopoly market structure. (8 marks)
- (c) Citing reasons, suggest why rising inflation is a major cause of concern in developing countries. (10 marks)

(Total: 20 marks)

QUESTION SEVEN

- (a) Outline the main causes for the rise in the unemployment levels in developing countries. (5 marks)
- (b) Suggest the possible remedy measures to contain unemployment crisis in developing countries. (7 marks)
- (c) Explain the likely challenges facing currency demonetization in your country. (8 marks)

(Total: 20 marks)

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