KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 23 May 2017. Time Allowed: 3 hours.

Answer any FIVE questions. ALL questions carry equal marks.

QUESTION ONE

(a) Highlight four steps followed in the scientific method used in economics. (4 marks)

(b) Enumerate five factors that determine the price elasticity of supply of a commodity. (5 marks)

(c) Using indifference curve analysis, derive the Engel's curve of a normal good. (6 marks)

(d) Summarise five applications of opportunity cost in decision making. (5 marks)

(Total: 20 marks)

QUESTION TWO

(a) With the aid of a well labelled diagram, describe the cobweb model as used in economics. (5 marks)

(b) With reference to the theory of production, discuss five factors that could lead to:

(i) Increasing returns to scale. (5 marks)

(ii) Decreasing returns to scale. (5 marks)

(c) (i) Explain the term "cross elasticity of demand." (1 mark)

(ii) The following data relate to a consumer in a certain market:

Price of commodity x (Sh.)	Quantity consumed of commodity y (Units)
12	80
16	100
20	120
24	140
28	160

Required:
The cross elasticity of demand. Comment on the relationship between commodity x and commodity y. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the difference between "real" and "pecuniary" economies of scale of a firm. (1 mark)

(b) Outline four limitations of the cardinal approach to the theory of consumer behaviour. (4 marks)

(c) State three reasons why the demand curve slopes downwards. (3 marks)

(d)   The following data relate to the nominal and real gross national product (GNP) levels of a certain economy for the years 2011 and 2016:

Year	Nominal GNP (Sh. billion)	Real GNP (Sh. billion)
2011	1,085	1,085
2016	1,850	1,275

Required:

(i)   The gross national product implicit price deflator for the years 2011 and 2016. Interpret your results.   (3 marks)

(ii)   Using year 2011 as the base year, determine the inflation rate for the economy.   (4 marks)

(e)   With the aid of an appropriate diagram, explain the condition under which a firm operating under perfect competition market structure would make supernormal profits in the short-run.   (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a)   Highlight four salient features of a monopolistic competition market structure.   (4 marks)

(b)   Suggest six economic reforms that could be put in place to boost the growth of the informal sector in developing countries.   (12 marks)

(c)   The demand and supply functions of a certain commodity are given as follows:

$$Qd = 300 - 0.4p$$
$$Qs = -400 + 0.6p$$

Where:
        Qd is the demand function.
        Qs is the supply function.
        p is the unit price of the commodity.

Required:
The equilibrium price and quantity of the commodity.   (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Explain the monetarists view on the quantity theory of money.   (2 marks)

(b)   Enumerate four exceptions to the law of supply.   (4 marks)

(c)   Recently, there have been deliberate attempts to control the rate of interest in some of the developing countries.

In view of the above statement, explain five advantages of interest rate decontrols in an economy.   (5 marks)

(d)   (i)   Distinguish between the "multiplier" and the "accelerator" as used in national income statistics.   (2 marks)

        (ii)   Explain four factors that could limit the application of the multiplier in developing countries.   (4 marks)

(e)   The following information relates to the demand of a commodity in relation to the income of a consumer:

Income (Sh.)	Demand (Units)
15,000	16
29,000	7

Required:
The income elasticity of demand of the commodity. Interpret your result.   (3 marks)

(Total: 20 marks)

QUESTION SIX

(a) Argue the case for and against regional economic integration by developing countries. (12 marks)

(b) A firm operating under perfect competition has the following demand and total cost functions:

$$P = 25 - 50Q$$
$$TC = 100 - 15Q + 60Q^2$$

Where: P is the price in shillings.
         Q is the quantity in units.
         TC is the total cost.

Required:

(i)   The level of output that would maximise profit. (5 marks)

(ii) The level of output that would minimise costs. (3 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Describe five causes of balance of payment deficits in developing countries. (5 marks)

(b) Outline six limitations of the theory of comparative advantage. (6 marks)

(c) Summarise nine reasons why unemployment is a major policy issue in developing countries. (9 marks)

(Total: 20 marks)

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