



kasneb

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 28 November 2017.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

(a) Explain the following types of development plans:

- (i) Short term plans. (1 mark)
- (ii) Medium term plans. (1 mark)
- (iii) Long term plans. (1 mark)

(b) Highlight three exceptions to the law of diminishing marginal utility. (3 marks)

(c) Describe four functions of money in an economy. (4 marks)

(d) Enumerate five advantages and five disadvantages of a planned economic system. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Analyse the relevance of interest rates in an economy. (5 marks)

(b) Examine eight policy measures that could be adopted to minimise the problem of rising external debt in developing countries. (8 marks)

(c) The data provided below relate to the quantities demanded of commodities A, B and C at different price levels:

| Commodity A | | Commodity B | | Commodity C | |
|-------------|-------------------|-------------|-------------------|-------------|-------------------|
| Unit Price | Quantity demanded | Unit price | Quantity demanded | Unit price | Quantity demanded |
| (Sh.) | (Units) | (Sh.) | (Units) | (Sh.) | (Units) |
| 75 | 923 | 14 | 350 | 28 | 540 |
| 52 | 1,568 | 21 | 620 | 24 | 600 |

Required:

(i) Elasticity of demand for commodities A, B and C. (6 marks)

(ii) Using the results obtained in (c) (i) above, advise the government on the commodity that should be considered for a tax increase. (1 mark)

(Total: 20 marks)

QUESTION THREE

- (a) Outline four factors that determine the supply of labour in an economy. (4 marks)
- (b) With the aid of well labelled diagrams, analyse the effects of each of the following situations on the market equilibrium price and quantity of an agricultural product X:
- (i) A reduction in the price of product Y which is a close substitute for product X. (4 marks)
 - (ii) A successful promotional campaign by producers showing the nutritional benefits of product X. (4 marks)
 - (iii) Discovery of a new use for product X by consumers, accompanied by bad weather condition. (4 marks)
 - (iv) Simultaneous increase in government subsidy on product X accompanied by a reduction in the price of the substitute product Y. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) State five advantages and five disadvantages of a perfectly competitive market structure. (10 marks)
- (b) Using appropriate illustrations, describe consumer equilibrium under the following approaches to the theory of consumer behaviour:
- (i) Cardinal approach. (5 marks)
 - (ii) Ordinal approach. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) The data below relate to the total cost function of a firm operating under perfect competition:

$$C = 5,000 + 500Q + 150Q^2 + 5Q^3$$

Where: C = Total cost in thousands of shillings.
Q = Output in units.

Required:

Assuming an output level of 10 units, determine:

- (i) Total cost of production. (1 mark)
 - (ii) Average variable cost of production. (2 marks)
 - (iii) Marginal cost of production. (2 marks)
- (b) Explain five advantages of implementing exports promotion strategy in developing countries. (5 marks)
- (c) Highlight ten problems that are faced by the agricultural sector in developing countries. (10 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) With the aid of a diagram, explain the term "surplus" as applied in the theory of market equilibrium. (4 marks)
- (b) Analyse six factors that influence the cost behaviour of a firm. (6 marks)
- (c) Using well labelled diagrams, distinguish between "inflationary gap" and "deflationary gap" as used in national income statistics. (10 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Explain the difference between "inelastic demand" and "unitary elasticity of demand". (2 marks)
- (b) Suggest four contractionary monetary policy measures that could be used to combat high level of inflation in a developing country. (4 marks)

(c) The data provided below represent estimated national income figures for a hypothetical economy in millions of shillings:

| | |
|--|-------|
| Gross National Product (at market price) | 3,992 |
| Depreciation allowance | 570 |
| Indirect taxes less subsidies | 524 |
| Business taxes | 214 |
| Personal income taxes | 763 |
| Government transfers | 693 |
| Retained profit | 230 |

Required:

- (i) Net National Product at market price. (2 marks)
- (ii) Net National Product at factor cost. (2 marks)
- (iii) Personal income. (2 marks)
- (iv) Disposable income. (2 marks)
- (d) Outline six challenges encountered by economic planners when using the income approach to estimate the level of national income in developing countries. (6 marks)
- (Total: 20 marks)**

