

**KASNEB
CPA
ECONOMICS**

December 2012

QUESTION ONE

- a) Explain the term "demand curve". (2 marks)
- b) Identify two reasons why demand curve slopes downwards. (4 marks)
- c) Analyze the importance of elasticity of demand in economic decision making. (6 marks)
- d) Explain eight determinants of money supply in an economy. (8 marks)

(Total: 20 marks)

QUESTION TWO

- a) **Highlight** five factors that are likely to influence the cost behavior of a manufacturing firm. (5 marks)
- b) With the aid of a well labeled diagram, illustrate the relationship between marginal cost and average cost as applied in production theory. (7 marks)
- c) The demand function of a certain firm is given as follows:

$$Q+10P=20$$

Where: Q is the level of output

P is the unit price.

Required:

- i. The average revenue function (2 marks)
- ii. The total revenue function (2 marks)
- d) Outline four salient features of isoquant curves. (4 marks)

(Total: 20 marks)

QUESTION THREE

- a) Using a diagram, explain the law of diminishing marginal utility. (6 marks)
- b) Explain four limitations of law equi marginal utility. (8 marks)
- c) Explain six advantages of economic integration to a member state. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- a) Distinguish between "devaluation" and "depreciation" of a currency. (4 marks)
- b) Explain four conditions that must hold for devaluation of a currency to be effective in developing countries. (10 marks)
- c) Summarize the role of the industrial sector in economic development. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Using an example, determine the relationship between the multiplier and marginal propensity to consume. (4 marks)
- b) Explain four factors that limit the effectiveness of the multiplier in developing countries. (8 marks)
- c) Outline four causes of wage differentials between the agricultural and the industrial based occupations. (8 marks)

(Total: 20 marks)

QUESTION SIX

- a) Using the Phillips curve, explain the theoretical relationship between inflation and unemployment. (5 marks)
- b) Explain why unemployment is a major issue in developing countries. (10 marks)
- c) With the aid of an appropriate diagram, explain why a loss-making firm under perfect competition continues in the production of goods and services in the short run. (5 marks)

(Total: 20 marks)

QUESTION SEVEN

- a) Justify the need to estimate the national income of a country. (6 marks)
- b) Outline six challenges encountered by economic planners when estimating the national income in developing countries. (6 marks)
- c) Describe four policy measures that developing countries could adopt to reduce regional imbalances. (8 marks)

(Total: 20 marks)