KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

MONDAY: 23 November 2015.　　　　　　　　　　　　　　　　**Time Allowed: 3 hours.**

Answer any FIVE questions.　　　　　　　　　　　　　　　**ALL questions carry equal marks.**

QUESTION ONE
(a)　With the aid of a diagram, describe the concept of unstable market equilibrium.　　　　　(5 marks)

(b)　"All giffen goods are inferior goods but not all inferior goods are giffen goods".

　　　Using a relevant diagram, explain the above statement.　　　　　　　　　　　(5 marks)

(c)　Argue five cases for and five cases against specialisation as a method of production.　　　(10 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION TWO
(a)　Outline four arguments upon which trade unions base their demand for increase in wages for unionisable employees.
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(4 marks)

(b)　State six effects of price decontrols to an economy.

(c)　Analyse six uses of elasticity of demand in decision making.　　　　　　　　　　　　..rks)

(d)　The following information relate to the price per unit and quantity supplied of a certain product:

Price per unit (Sh.)	12	10	8	5	2
Quantity supplied (Units)	12,000	11,000	9,000	6,000	0

　　　Required:
　　　Price elasticity of supply when price decreases from Sh.10 per unit to Sh.5 per unit. Interpret your result.　　(4 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION THREE
(a)　Explain the term "optimal size of a firm".　　　　　　　　　　　　　　　　(2 marks)

(b)　With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make super normal profits in the short-run.　　　　　　　　　　(5 marks)

(c)　(i)　Summarise seven barriers to geographical mobility of labour as a factor of production.　　(7 marks)

　　　(ii)　Highlight six measures that could be adopted by a government to enhance mobility of labour.　　(6 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION FOUR

(a)   Outline five problems associated with the expenditure approach of measuring the national income of a country.

(5 marks)

(b)   Enumerate five changes in the tax policy that could be implemented by a government to spur growth in the agricultural sector.

(5 marks)

(c)   The following information relates to savings and investments of a certain economy in millions of shillings:

$$S = -500 + 0.36Y$$
$$I = 8.000$$

Where:

S = Savings function.

Y = National income.

I   = Investments function.

Required:

(i)   The consumption function.

(3 marks)

(ii)   The equilibrium level of national income.

(3 marks)

(iii)   The multiplier. Interpret your result.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Describe five instruments of monetary policy that could be used to control the level of money supply in an economy.

(10 marks)

(b)   Discuss five factors that limit the effectiveness of monetary policies in developing countries.

(10 marks)

(Total: 20 marks)

QUESTION SIX

(a)   Explain four effects of inflation on the functions of money.

(8 marks)

(b)   (i)   Outline six causes of high levels of external debts in developing countries.

(ii)   Summarise six policies that could be adopted to combat the problem of high levels of external debts in developing countries.

(6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Highlight five determinants of money supply in an economy.

(5 marks)

(b)   Describe five differences between commercial banks and non-banking financial institutions.

(10 marks)

(c)   The data provided below represent estimated national income figures for country "X" in trillion of shillings:

Gross National Product (at market price)	620.4
Government transfers	78.6
Business taxes	18.2
Personal income taxes	56.1
Depreciation allowance	42.3
Indirect taxes less subsides	36.5

Required:

(i)   Net National Income at factor cost.

(2 marks)

(ii)   Net National Product at market price.

(1 mark)

(iii)   Personal income.

(1 mark)

(iv)   Disposable income for country "X".

(1 mark)

(Total: 20 marks)

....