KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 22 November 2016. **Time Allowed: 3 hours.**

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

QUESTION ONE

(a) (i) Explain the term "price control" as used in economics. (1 mark)

(ii) Highlight eight reasons for price controls in an economy. (8 marks)

(b) Outline six advantages of a controlled market system. (6 marks)

(c) With the aid of a diagram, explain the concept of consumer surplus. (5 marks)

(Total: 20 marks)

QUESTION TWO

(a) Enumerate six factors that could lead to a rightward shift of the supply curve. (6 marks)

(b) State six assumptions of the marginal productivity theory of wage determination. (6 marks)

(c) Summarise eight factors that could affect own price elasticity of demand of a commodity. (8 marks)

(Total: 20 mark

QUESTION THREE

(a) With the aid of well labelled diagrams, discuss the short run and long run equilibrium positions of a firm operating under monopolistic competition. (12 m)

(b) A monopolist sells his product in two distinct markets, A and B. The cost function of the monopolist is given as:

$$C = 100Q$$

Where: C is the total cost function

Q is the total production in units

The demand functions of the two distinct markets are given as:

$$Q_A = 50 - 0.2P_A$$

$$Q_B = 100 - 0.5P_B$$

Where;

Q_A is the demand of the product in market A.

Q_B is the demand of the product in market B.

P_A is the price of the product in market A.

P_B is the price of the product in market B.

Required:

(i) The equilibrium level of price and quantity of the product in market A. (4 marks)

(ii) The equilibrium level of price and quantity of the product in market B. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Highlight five strategies that could be implemented by governments in developing countries to spur growth in the industrial sector. (5 marks)

(b) Using an appropriate diagram, describe the expansion curve of a firm as applied in the theory of production. (5 marks)

(c) Discuss ten limitations of using national income statistics to compare the standards of living between different countries. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The United Kingdom (UK) recently withdrew its membership from the European Union (EU), a process that was referred to as "Brexit". Analyse the likely economic effect of "Brexit" on the United Kingdom's:

(i) Exchange rates. (2 marks)

(ii) Interest rates. (2 marks)

(iii) Inflation rate. (2 marks)

(iv) Securities exchange market. (2 marks)

(b) The table below shows the total variable costs of Ujuzi Limited at different levels of output.

Level of output (units)	Total variable cost (Sh.)
0	0
1	80,000
2	130,000
3	200,000
4	270,000
5	310,000
6	510,000
7	530,000
8	580,000

The total fixed cost of the company is Sh.150,000.

Required:

(i) The average cost of producing each level of output. (4 marks)

(ii) The marginal cost of producing each level of output. (4 marks)

(iii) The maximum attainable profit. (4 marks)

(Total: 20 marks)

QUESTION SIX

(a) Outline five factors that determine the rate of exchange of a country's currency. (5 marks)

(b) Enumerate five roles of the central bank in an economy. (5 marks)

(c) Suggest five policy measures that could be adopted to reduce the level of unemployment in a developing country. (10 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Explain the relationship between money supply and the level of inflation in an economy. (2 marks)

(b) State six advantages of a floating exchange rate system in an economy. (6 marks)

(c) Summarise eight challenges that hinder successful achievement of national development targets set by developing countries. (8 marks)

(d) The economic transactions for a hypothetical economy in thousands of shillings are given as follows:

Sector	Total output Sh."000"	Intermediate purchaser Sh."000"
Service	76,000	37,000
Agricultural	55,000	23,000
Manufacturing	111,000	69,000

Indirect taxes and fixed assets depreciation amount to Sh.21,000,000 and Sh.22,000,000 respectively.

Required:

(i) Gross national product using the value added approach. (2 marks)

(ii) Net domestic product at market price. (1 mark)

(iii) Net domestic product at factor cost. (1 mark)

(Total: 20 marks)

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