



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 (Sh.) | Quantity demanded (Units) | Unit price (Sh.) | Quantity demanded (Units) | Unit price (Sh.) | Quantity demanded (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)**

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