



CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 22 May 2018.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Discuss five negative effects of inflation in an economy. (10 marks)
- (b) Explain five conditions that could favour effective use of price discrimination in an economy. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Examine four determinants of money supply in an economy. (8 marks)
- (b) Explain six reasons why a country might impose international trade restrictions. (6 marks)
- (c) Analyse three roles of International Monetary Fund (IMF) to member countries. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) The demand of a certain product is represented by the following function:

$$Q = 200 + 5P + P^2$$

Where:

Q is quantity of the product

P is the price of the product

Required:

- (i) Determine the point elasticity of demand at $P = \text{Sh.}20$. (5 marks)
- (ii) Interpret your result in (a) (i) above. (1 mark)
- (b) Suggest four reasons why wages in the agricultural sector tend to be lower than wages in the industrial sector. (4 marks)
- (c) With the aid of a well labelled diagram, explain a normal profit making firm under oligopoly in the short-run. (5 marks)
- (d) Highlight five determinants of economic development in a country. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) With the aid of a well labelled diagram, explain the law of diminishing marginal utility. (6 marks)
- (b) Outline four properties of indifference curves. (4 marks)
- (c) Discuss five ways in which inflation might cause unemployment in an economy. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the term "partial equilibrium" as used in economics. (2 marks)
- (b) Suggest three methods that the government of a country might adopt to strengthen its currency. (3 marks)
- (c) Explain five differences between the "quantity theory of money" and the "liquidity preference theory of money". (10 marks)
- (d) With the aid of a diagram, explain why isoquants are negatively sloped. (5 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) With the aid of well labelled diagrams, distinguish between "price floors" and "price ceilings". (8 marks)
- (b) In a hypothetical economy X, autonomous consumption equals to 800 and the marginal propensity to save equals to 0.25.
- Required:**
- (i) Formulate the consumption function. (2 marks)
- (ii) If the level of investment increased by Sh.1,000 million, determine the change in equilibrium national income. (4 marks)
- (c) With the help of a diagram, justify why the condition that marginal revenue equals to marginal cost ($MR = MC$) is only a necessary but not a sufficient condition for maximisation. (6 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Highlight five negative effects of unemployment in an economy. (5 marks)
- (b) Summarise five consequences of wage control. (5 marks)
- (c) The demand and total cost functions for a hypothetical firm are represented as follows:

$$\begin{aligned} P &= 100 \\ TC &= 50 + 8Q^2 \end{aligned}$$

Where: P is the price
TC is the total cost
Q is the quantity

Required:

- (i) The marginal cost function. (2 marks)
- (ii) The average fixed cost function. (2 marks)
- (iii) The marginal revenue function. (2 marks)
- (iv) The profit maximising level of output. (4 marks)
- (Total: 20 marks)**
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