

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 marks)**

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 marks)
- (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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