

# KASNEB

ATD LEVEL III

## PRINCIPLES OF ECONOMICS

MONDAY: 23 May 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

### QUESTION ONE

- (a) Explain the following terms:
- (i) Actual economic growth. (2 marks)
  - (ii) Potential economic growth. (2 marks)
- (b) Highlight six externalities associated with increase in economic growth in a country. (6 marks)
- (c) Describe five factors that limit the efficient operation of a free market economy. (10 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Define the term "cross elasticity of demand" as used in economics. (2 marks)
- (b) The table below shows the quantity supplied of a certain commodity at different price levels:

Unit Price (Sh).	60	50	40	30	20
Quantity supplied (units)	6,000	5,500	4,500	3,000	0

**Required:**

The elasticity of supply of the commodity when the unit price decreases from Sh.50 to Sh.30. Interpret your result. (5 marks)

- (c) Enumerate six factors that determine the own price elasticity of demand. (6 marks)
- (d) (i) Using an appropriate diagram, explain the law of diminishing marginal utility. (4 marks)
- (ii) Outline three exceptions to the law of diminishing marginal utility. (3 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) Highlight six factors that determine the level of savings in an economy. (6 marks)
- (b) State six problems that are faced by the industrial sector in developing countries. (6 marks)
- (c) Summarise eight measures that could be adopted to boost the agricultural sector in developing economies. (8 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) With the aid of well labelled diagrams, describe the profit maximising level of output and price for a firm operating under monopolistic competition in the:
- (i) Short-run period. (6 marks)
  - (ii) Long-run period. (6 marks)
- (b) The following data relate to a certain commodity in the market:

$$P = 68 - 4Q_d - Q_d^2$$
$$P = 12 + 2Q_s + Q_s^2$$

Where: P is the price of the commodity.  
Qd is the quantity demanded.  
Qs is the quantity supplied.

**Required:**

The equilibrium price and quantity of the commodity.

(8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Examine six functions of money in an economy. (6 marks)
- (b) Discuss three roles of the central bank of a country. (6 marks)
- (c) Analyse four factors that could limit the effective application of the accelerator in an economy. (8 marks)

**(Total: 20 marks)**

**QUESTION SIX**

- (a) The data below relate to the demand and total cost functions of a firm operating under perfect competition:

$$P = 150$$
$$TC = 30 + 15Q^2$$

Where: P = Price  
Q = Output  
TC = Total Cost

**Required:**

- (i) Average fixed cost function. (2 marks)
  - (ii) Average variable cost function. (2 marks)
  - (iii) Marginal revenue function. (2 marks)
  - (iv) The profit maximising level of output. (4 marks)
- (b) Discuss five criticisms levelled against the use of national income statistics. (10 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

- (a) Describe four types of mobility of labour that could be experienced in an economy. (8 marks)
- (b) Using appropriate diagrams, analyse the profit maximising level of output for a firm operating in a perfectly competitive market structure:
  - (i) In the short-run period. (6 marks)
  - (ii) In the long-run period. (6 marks)

**(Total: 20 marks)**

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