**ATD LEVEL III**

**PRINCIPLES OF ECONOMICS**

**WEDNESDAY: 15 December 2021.**                          **Time Allowed: 3 hours.**

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

**QUESTION ONE**

(a)     Outline five features of a planned market economy.                          (5 marks)

(b)     (i)     Explain "the law of variable proportions" as applied in the theory of production.                          (2 marks)

        (ii)     Highlight five assumptions of the law of variable proportions.                          (5 marks)

(c)     (i)     Define the term "elasticity of demand".                          (2 marks)

        (ii)     Enumerate six factors that determine the elasticity of demand of a commodity.                          (6 marks)

                          **(Total: 20 marks)**

**QUESTION TWO**

(a)     (i)     With the aid of diagrams, distinguish between "a movement along the supply curve" and 'a shift in the supply curve".                          (6 marks)

        (ii)     List six factors that might lead to a rightward shift in the supply curve of a commodity.                          (6 marks)

(b)     Analyse four effects of minimum price controls in an economy.                          (8 marks)

                          **(Total: 20 marks)**

**QUESTION THREE**

(a)     Outline five features of a monopsony market structure.                          (5 marks)

(b)     Discuss four challenges that might be encountered by governments in the implementation of economic plans.                          (8 marks)

(c)     The following information relates to a certain commodity market:

$Q_d = x_0 - x_1 P$

$Q_s = Y_0 + Y_1 P$

Where:     $Q_d$ is the quantity demanded
           $Q_s$ is the quantity supplied
           P is the price
           $X_0$ and $Y_0$ are constants
           $X_1$ and $Y_1$ are variables

**Required:**

(i)     The equilibrium price.                          (3 marks)

(ii)     The equilibrium quantity.                          (4 marks)

                          **(Total: 20 marks)**

**QUESTION FOUR**

(a)    (i)    Explain the term "indifference curve" as used in economics.                    (2 marks)

        (ii)    State three properties of indifference curves.                                         (3 marks)

(b)    Highlight five limitations of the cardinal approach to utility.                          (5 marks)

(c)    Describe five applications of national income statistics in a country.                (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a)    Analyse four limitations of the quantity theory of money.                               (8 marks)

(b)    Summarise six factors that are likely to influence the cost behavior of a firm.     (6 marks)

(c)    The data below shows different units of output (Q) of a certain company with their corresponding total costs.

| Output (Q) (units) | 0 | 2 | 4 | 6 | 8 | 10 |
|---|---|---|---|---|---|---|
| Total cost (Sh."000") | 100 | 150 | 215 | 248 | 313 | 380 |

**Required:**

(i)    Average variable costs when the levels of output are 2,6 and 8 units respectively.    (3 marks)

(ii)    Marginal costs of the $4^{th}$, $6^{th}$ and $10^{th}$ units of output respectively.    (3 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a)    Explain the term "monetary policy".                                                            (2 marks)

(b)    Discuss four objectives of monetary policy.                                                   (8 marks)

(c)    Describe five instruments of monetary policy that could be used by the central bank of your country.    (10 marks)

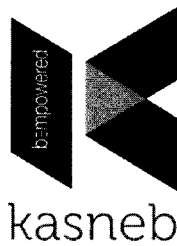**(Total: 20 marks)**

**QUESTION SEVEN**

(a)    Outline five indicators of economic growth in a country.                                (5 marks)

(b)    Explain five determinants of money supply in an economy.                              (10 marks)

(c)    The data below relates to the national income statistics of a hypothetical economy in trillions of shillings:

| National income | 650 |
|---|---|
| Government subsidies | 22 |
| Depreciation of capital goods | 73 |
| Indirect business taxes | 66 |

**Required:**

(i)    Net national product.                                                                             (2 marks)

(ii)    Gross national product.                                                                          (3 marks)

**(Total: 20 marks)**

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**ATD LEVEL III**

**PRINCIPLES OF ECONOMICS**

**MONDAY: 30 August 2021.**                    **Time Allowed: 3 hours.**

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

**QUESTION ONE**

(a)     List five advantages of a controlled market system.                    (6 marks)

(b)     Distinguish between the law of "diminishing returns" and the "law of return to scale".                    (4 marks)

(c)     Explain three stages of production as implied by the law of diminishing returns.                    (6 marks)

(d)     Suggest four policy measures that might be adopted by developing countries to reduce the level of unemployment.                    (4 marks)
                    **(Total: 20 marks)**

**QUESTION TWO**

(a)     (i)     Explain the term "diminishing marginal utility".                    (2 marks)

         (ii)    State three examples of exceptions to the law of diminishing utility.                    (3 marks)

(b)     Discuss five factors that are responsible for wage differentials within the same occupation.                    (10 marks)

(c)     Summarise five factors that influence the cost behaviour of a firm.                    (5 marks)
                    **(Total: 20 marks)**

**QUESTION THREE**

(a)     With the aid of well labelled diagrams, distinguish between the following set of terms:

         (i)     Change in supply and change in quantity supplied.                    (4 marks)

         (ii)    Change in demand and change in quantity demanded.                    (4 marks)

(b)     List six ways a government could influence the allocation of resources in a country.                    (6 marks)

(c)     Identify six sources of monopoly powers.                    (6 marks)
                    **(Total: 20 marks)**

**QUESTION FOUR**

(a)     Identify seven causes of demand pull inflation.                    (7 marks)

(b)     A firm's market demand and total cost functions are given as:

         P     =     $50 - 0.5Q$
         TC    =     $10 + 20Q + Q^2$

Where;   P     =     Price
         Q     =     Quantity
         TC    =     Total cost

**Required:**

(i)     The level of output which maximises profit.        (4 marks)

(ii)    The total profit of the firm.        (4 marks)

(iii)   Price at which the firm maximises profit.        (5 marks)
           **(Total: 20 marks)**

## QUESTION FIVE

(a)    Distinguish between "injections" and "withdrawals" as applied in national income.    (4 marks)

(b)    Analyse four reasons why gross national product (GNP) figure is lower than gross domestic product (GDP) figure in developing countries.    (4 marks)

(c)    Discuss four problems encountered when measuring national income.    (8 marks)

(d)    Distinguish between "average propensity to consume" and "average propensity to save".    (4 marks)
           **(Total: 20 marks)**

## QUESTION SIX

(a)    Explain six reasons why external debt management is a major policy issue in developing countries.    (6 marks)

(b)    Summarise six factors that could limit economic planning in developing countries.    (6 marks)

(c)    State eight roles of agriculture in economic development.    (8 marks)
           **(Total: 20 marks)**

## QUESTION SEVEN

(a)    Explain the following terms:

(i)     Composite demand.        (2 marks)

(ii)    Competitive supply.        (2 marks)

(b)    With the aid of relevant diagrams, explain the term market demand.    (6 marks)

(c)    The quantity demanded of a commodity is 50 units when the price is Sh.15. However, when the price rises to Sh.20, quantity demanded decreases to 30 units.

**Required:**

(i)     Calculate the point price elasticity of demand.        (3 marks)

(ii)    Interpret your results in (c) (i) above.        (2 marks)

(d)    Explain five roles of commercial banks in an economy.    (5 marks)
           **(Total: 20 marks)**

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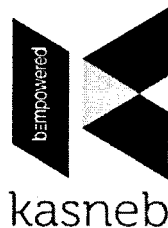
## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

**MONDAY: 17 May 2021.**                                    **Time Allowed: 3 hours.**

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

### QUESTION ONE

(a)     Outline six factors that might limit consumer sovereignty.                                    (6 marks)

(b)     Summarise six demerits of a free market economic system.                                    (6 marks)

(c)     The following information relates to the quantity consumed of commodity X at different prices and income levels of a consumer:

| Quantity | | Price (Sh.) | Income (Sh.) |
|---|---|---|---|
| I | 120 units | 160 | 60,000 |
| II | 100 units | 180 | 50,000 |

**Required:**

(i)     Determine the price and income elasticity of demand of commodity X.                                    (6 marks)

(ii)    On the basis of your results in (c) (i) above, explain the nature of commodity X.                                    (2 marks)

**(Total: 20 marks)**

### QUESTION TWO

(a)     Analyse three exceptions to the law of supply.                                    (6 marks)

(b)     Using relevant examples, explain two leakages from the circular flow of income.                                    (4 marks)

(c)     Identify six factors that might lead to a rightward shift in the demand curve.                                    (6 marks)

(d)     State four conditions for consumer rationality as used in economics.                                    (4 marks)

**(Total: 20 marks)**

### QUESTION THREE

(a)     Argue six cases against the monopoly market structure.                                    (6 marks)

(b)     Outline four features of the oligopolistic market structure.                                    (4 marks)

(c)     The following data represents the demand function and total cost function of a monopolist:

$$P = 140 - 2q$$
$$TC = 10 + 5q^2$$

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

**Required:**

Compute the quantity, price and profit maximising level of output of the monopolist.                                    (6 marks)

(d)     Summarise two reasons why the marginal cost curve cuts the average cost curve at the lowest point.     (4 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a)    Explain six characteristics of money.    (6 marks)

(b)    Analyse six negative effects of inflation to an economy.    (6 marks)

(c)    In relation to the theory of production, illustrate the shutdown point for a firm.    (6 marks)

(d)    Explain the term "cross elasticity of demand" as used in economics.    (2 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a)    Summarise five attributes of economic development in a country.    (5 marks)

(b)    Suggest six policy measures that the government might use to promote economic development in a country.    (6 marks)

(c)    Analyse five factors that could be responsible for wage differentials between occupations.    (5 marks)

(d)    Differentiate between "marginal revenue product of labour" and "average revenue product of labour".    (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a)    Explain five advantages of international trade to a country.    (5 marks)

(b)    Describe five methods of trade restrictions in international trade.    (5 marks)

(c)    State five measures that might be put in place to control the level of budget deficit in least developed countries.    (5 marks)

(d)    Outline five factors that could determine the level of national income in a country.    (5 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

(a)    State four factors that would limit the effectiveness of fiscal policy instruments in developing countries.    (4 marks)

(b)    Describe five effects of a decrease in money supply in an economy.    (5 marks)

(c)    Using Phillips curve, explain the statistical relationship between unemployment and inflation rate.    (6 marks)

(d)    Suggest five advantages of economies of scale to a firm.    (5 marks)

**(Total: 20 marks)**

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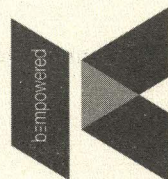
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## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

**MONDAY: 23 November 2020.**                                      **Time Allowed: 3 hours.**

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

## QUESTION ONE

(a)  Explain four benefits of studying economics.                                    (4 marks)

(b)  Outline five applications of the law of diminishing marginal utility in decision making.    (5 marks)

(c)  The demand for commodity X in a certain market has gone down.

   Explain six factors that might have caused the decline.                           (6 marks)

(d)  With reference to the theory of production, identity five disadvantages of adopting capital intensive technique of
   production.                                                                      (5 marks)
                                                                              **(Total: 20 marks)**

## QUESTION TWO

(a)  Distinguish between "price elasticity of demand" and "price elasticity of supply".    (4 marks)

(b)  With reference to decision making, discuss three practical applications of the concept of price elasticity in an
   economy.                                                                         (6 marks)

(c)  The total revenue and total cost function of a firm operating under a perfectly competitive market is given below:

   $TR = 42Q - 0.5Q^2$

   $TC = 40Q - 120Q + 150$

   Where:    TR is the total revenue.
             TC is the total cost.
             Q is the quantity.

   **Required:**
   Determine the profit maximising level of output (Q).                              (4 marks)

(d)  Outline six diseconomies of scale to a firm.                                    (6 marks)
                                                                              **(Total: 20 marks)**

## QUESTION THREE

(a)  Suggest four policy measures that a government might put in place to enhance occupational mobility of labour in an
   economy.                                                                         (8 marks)

(b)  Analyse four factors that determine the demand for labour in an economy.        (8 marks)

(c)  Outline four factors that could lead to decreasing returns to scale in the production process.    (4 marks)
                                                                              **(Total: 20 marks)**

**QUESTION FOUR**

(a)    The following information relates to a hypothetical economy of country X in billions of shillings:

$$C = 150 + 0.75Y.$$
$$I = 75.$$
$$G = 20.$$

       Where:    C  = Consumption expenditure.
                 I  = Investment expenditure.
                 G  = Government expenditure.

       **Required:**
       The equilibrium level of national income.                                                    (4 marks)

(b)    Outline five challenges associated with the product approach of measuring national income.      (5 marks)

(c)    Summarise six benefits of restrictions in international trade to an economy.                     (6 marks)

(d)    Identify five disadvantages of duopoly market structure.                                        (5 marks)
                                                                                            **(Total: 20 marks)**

**QUESTION FIVE**

(a)    Distinguish between the following set of terms:

       (i)    "Imported inflation" and "administered inflation".                                        (2 marks)

       (ii)   "Structural unemployment" and "disguised unemployment".                                   (2 marks)

(b)    Explain three non-monetary policies that might be adopted by the government in order to control inflation.   (6 marks)

(c)    Identify six effects of depreciation of a currency in an economy.                                (6 marks)

(d)    Summarise four benefits of economic planning in an economy.                                      (4 marks)
                                                                                            **(Total: 20 marks)**

**QUESTION SIX**

(a)    The demand and supply functions for commodity X is represented by:

$$Q_D = 50 - 0.6P.$$

$$Q_S = 32 + 0.3P.$$

       Where:    $Q_D$ is the quantity demanded.
                 $Q_S$ is the quantity supplied.
                 P is the price.

       **Required:**
       (i)    The market equilibrium price and quantity demanded for commodity X.                       (6 marks)

       (ii)   The point elasticity of demand for commodity X when price is Sh.10.                       (3 marks)

       (iii)  Interpret your results in (a) (ii) above.                                                 (1 mark)

(b)    Summarise five factors that determine interest rates in an economy.                              (5 marks)

(c)    Explain five roles played by the manufacturing industry in economic development of a country.   (5 marks)
                                                                                            **(Total: 20 marks)**

**QUESTION SEVEN**

(a)    Examine three limitations of using cardinal approach to measure utility.                         (6 marks)

(b)    Discuss four assumptions that govern consumer behaviour.                                         (8 marks)

(c)    Identify six measures that a country might adopt to effectively manage external debt.            (6 marks)
                                                                                            **(Total: 20 marks)**

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## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

TUESDAY: 26 November 2019.                          Time Allowed: 3 hours.

Answer any FIVE questions.                          ALL questions carry equal marks.

## QUESTION ONE
(a)     Distinguish between "microeconomics" and "macroeconomics".                          (4 marks)

(b)     Explain six reasons why government might reintroduce price control mechanism in an economy.     (6 marks)

(c)     Discuss five characteristics of a mixed economic system.                          (10 marks)
                                                                    **(Total: 20 marks)**

## QUESTION TWO
(a)     Identify five limitations of barter trade.                          (5 marks)

(b)     Explain five factors that determine the price elasticity of demand of a commodity.     (5 marks)

(c)     State five applications of indifference curve analysis in an economy.          (5 marks)

(d)     Using a well-labelled diagram, explain the trade off between work and leisure.     (5 marks)
                                                                    **(Total: 20 marks)**

## QUESTION THREE
(a)     The demand and supply function of a given commodity are represented by:

$$Qd = 126 - 9p$$
$$Qs = 18 + 3p$$

Where   Qd is the quantity demanded.
        Qs is the quantity supplied.

**Required:**
(i)     The equilibrium price of the commodity.                          (3 marks)

(ii)    The equilibrium quantity of the commodity.                          (2 marks)

(b)     Using a well labelled diagram, explain the relationship between the long run and short run average cost curves.
                                                                    (5 marks)

(c)     State four assumptions of the law of diminishing returns.                          (4 marks)

(d)     Explain three reasons why the demand curve slopes downwards.                          (6 marks)
                                                                    **(Total: 20 marks)**

**QUESTION FOUR**

(a)    Outline four causes of cost push inflation.                                              (4 marks)

(b)    Explain the impact of inflation on the following:

      (i)     Consumers.                                                                          (2 marks)

      (ii)    Creditors.                                                                          (2 marks)

      (iii)   Savings.                                                                            (2 marks)

(c)    Distinguish between "absolute advantage" and "comparative advantage" as applied in international trade.    (4 marks)

(d)    Analyse six corrective measures that developing countries might institute to reduce persistent deficits in their balance of payment account.                                                                 (6 marks)
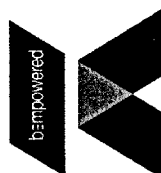                                                                                  **(Total: 20 marks)**

**QUESTION FIVE**

(a)    Identify four characteristics of money as a medium of exchange.                              (4 marks)

(b)    Discuss three reasons why individuals hold money according to John M. Keynes.               (6 marks)

(c)    Explain ten challenges faced by economic planners in developing countries.                  (10 marks)
                                                                                  **(Total: 20 marks)**

**QUESTION SIX**

(a)    Summarise five roles of non bank financial institutions in an economy.                      (5 marks)

(b)    Explain five factors that determine the efficiency of labour as a factor of production.     (5 marks)

(c)    Discuss five reasons why it is necessary to estimate the national income of a country.      (10 marks)
                                                                                  **(Total: 20 marks)**

**QUESTION SEVEN**

(a)    Distinguish between "economic growth" and "economic development".                           (4 marks)

(b)    Highlight seven factors that could contribute to low economic growth rate in most developing countries.    (7 marks)

(c)    Using a well labelled diagram, explain the phenomenon of vicious cycle of poverty.          (4 marks)

(d)    Summarise five policy measures that could be implemented to combat poverty in developing countries.    (5 marks)
                                                                                  **(Total: 20 marks)**

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## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

**MONDAY: 20 May 2019.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

### QUESTION ONE
(a) Distinguish between "positive economics" and "normative economics". (4 marks)

(b) Explain five roles of the government in resource allocation in a country. (5 marks)

(c) Outline five factors that determine price elasticity of supply in the market. (5 marks)

(d) Identify six demerits of a planned economic system. (6 marks)

**(Total: 20 marks)**

### QUESTION TWO
(a) Summarise three exceptions to the law of diminishing marginal utility. (3 marks)

(b) Distinguish between a "giffen good" and an "inferior good". (4 marks)

(c) Explain five advantages to an economy of mobility of factors of production. (5 marks)

(d) With the aid of diagrams, differentiate between a "change in demand" and a "change in quantity demanded". (8 marks)

**(Total: 20 marks)**

### QUESTION THREE
(a) The following information relates to a commodity in a certain market:

$$P = 10 - 0.2Q$$
$$P = 50 - 0.5Q$$

Where : P is the price of the commodity.
Q is the quantity demanded of the commodity.

**Required:**
(i) Giving reasons, determine the demand and supply functions. (4 marks)

(ii) The equilibrium price and quantity of the commodity. (4 marks)

(b) A firm operating under perfect competition has a total cost function represented by:

$$TC = 75 + 15Q$$

Where: TC is total cost.
Q is quantity.

**Required:**
The unit price of the firm's output. (2 marks)

(c)     Explain the following terms as used in economics:

    (i)        Composite supply.        (2 marks)

    (ii)      Complementary demand.        (2 marks)

(d)     Highlight six roles of foreign aid in the economic development of developing countries.        (6 marks)
        **(Total: 20 marks)**

## QUESTION FOUR
(a)     Identify five limitations of the ordinalist approach to the study of consumer behaviour.        (5 marks)

(b)     With reference to the theory of costs, highlight five factors that lead to external economies of scale.        (5 marks)

(c)     (i)        Explain the term "inflation" as used in economics.        (2 marks)

    (ii)      Summarise four causes of inflation.        (4 marks)

(d)     Explain the relationship between the multiplier and the accelerator.        (4 marks)
        **(Total: 20 marks)**

## QUESTION FIVE
(a)     State five reasons for the deteriorating terms of trade for developing countries.        (5 marks)

(b)     Explain four forms of economic integration.        (4 marks)

(c)     Identify six effects of unemployment in an economy.        (6 marks)

(d)     Highlight five functions of the International Monetary Fund (IMF).        (5 marks)
        **(Total: 20 marks)**

## QUESTION SIX
(a)     Suggest five reasons why an increase in national income may not necessarily imply improved standards of living for residents in a country.        (5 marks)

(b)     Using an illustration, explain the equilibrium level of national income of an open economy.        (5 marks)

(c)     Highlight four challenges associated with the income approach of measuring national income.        (4 marks)

(d)     Outline six functions of the central bank in a country.        (6 marks)
        **(Total: 20 marks)**

## QUESTION SEVEN
(a)     Explain five factors that determine the value of money in an economy.        (5 marks)

(b)     Examine five limitations of the monetarist theory of money supply.        (5 marks)

(c)     Highlight six advantages of monopolies in an economy.        (6 marks)

(d)     Outline four factors that might lead to occurrence of a market disequilibrium for a product.        (4 marks)
        **(Total: 20 marks)**

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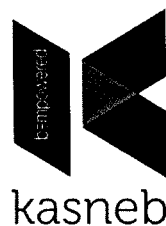
## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

**MONDAY: 26 November 2018.**                                    **Time Allowed: 3 hours.**

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

### QUESTION ONE
(a)     Argue six cases in favour of specialisation of trade.                                    (6 marks)

(b)     Highlight five characteristics of a free market system in an economy.                    (5 marks)

(c)     Citing relevant examples, distinguish between "substitutes" and "compliments" as used in economics.     (4 marks)

(d)     Identify five factors that might lead to a rightward shift in the supply curve.          (5 marks)
                                                                        **(Total: 20 marks)**

### QUESTION TWO
(a)     The quantity supplied of a commodity is 60 units when the prevailing price is 45 Shillings. However, when the price rises to 50 Shillings, the quantity supplied of the commodity increases to 75 units.

   **Required:**
   (i)      The price elasticity of supply.                                                      (3 marks)

   (ii)     Interpret your results in (a)(i) above.                                              (2 marks)

(b)     Outline five demerits of fixing a maximum price of a commodity in an economy.            (5 marks)

(c)     Distinguish between the "real sector" and the "monetary sector" of an economy.           (4 marks)

(d)     Summarise six roles of commercial banks in an economy.                                   (6 marks)
                                                                        **(Total: 20 marks)**

### QUESTION THREE
(a)     Identify four factors that determine wages of workers in an economy.                     (4 marks)

(b)     Differentiate between "isocost line" and "isoquant" as applied in the theory of production.     (4 marks)

(c)     Discuss four types of mobility of labour as a factor of production.                      (8 marks)

(d)     Explain four measures that could be adopted in an economy to control against a deflationary gap.     (4 marks)
                                                                        **(Total: 20 marks)**

### QUESTION FOUR
(a)     Explain the concept of multiplier as used in economics.                                  (2 marks)

(b)     Analyse four roles of the multiplier in an economy.                                      (8 marks)

(c)     With the aid of a diagram, explain a firm's expansion path.                              (6 marks)

(d)     Illustrate the concept of consumer surplus as applied in the theory of consumer behaviour.     (4 marks)
                                                                        **(Total: 20 marks)**

**QUESTION FIVE**

(a)     Explain the term "quasi rent" as applied in the theory of production.                    (2 marks)

(b)     Highlight eight factors that limit economic growth and development in developing countries.    (8 marks)

(c)     Enumerate six causes of unemployment in an economy.                              (6 marks)

(d)     With the aid of a well labelled diagram, explain the long run equilibrium of a firm operating under perfect competition.                                                                    (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a)     Summarise four benefits of international trade to developing countries.                    (4 marks)

(b)     Suggest five challenges facing economic integration in developing countries.                 (5 marks)

(c)     Outline six economic effects of inflation to an economy.                               (6 marks)

(d)     Identify five measures that might be adopted in an economy to overcome the challenges of development planning.

(5 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

(a)     The consumption function of a hypothetical economy is given as follows:

$$C = 50 + 0.75Y^d$$

Where: $Y^d$ is the disposable income.

**Required:**

(i)     The marginal propensity to save.                                            (2 marks)

(ii)    The level of consumption assuming income of 500 Shillings and a tax rate of 25%.          (3 marks)

(b)     Describe five methods employed by the government to influence allocation of resources in an economy.    (5 marks)

(c)     Explain five factors that might limit consumer sovereignty.                           (5 marks)

(d)     Outline five characteristics of a market operating under duopoly market structure.          (5 marks)

**(Total: 20 marks)**

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## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

**MONDAY: 21 May 2018.**          **Time Allowed: 3 hours.**

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

### QUESTION ONE

(a)    Summarise four uses of a production possibility curve.        (4 marks)

(b)    Differentiate between "stable market equilibrium" and "unstable market equilibrium".        (4 marks)

(c)    Outline four conditions that must be fulfilled for consumer rationality to exist.        (4 marks)

(d)    Discuss four applications of the concept of elasticity of demand in an economy.        (8 marks)

                                                              **(Total: 20 marks)**

### QUESTION TWO

(a)    Highlight four functions of money.        (4 marks)

(b)    Explain three reasons why the elasticity of supply of agricultural goods is ever low.        (6 marks)

(c)    A rational firm in a competitive market has the demand structure and total cost function represented by:

     Demand, $P = 50$

     Total cost, $TC = 10 + 5Q^2$

     Where:   $P$   =   Price
                $TC$   =   Total cost
                $Q$   =   Quantity

     **Required:**

     (i)     Average fixed cost function.        (2 marks)

     (ii)     Average variable cost function.        (2 marks)

     (iii)     Marginal cost function.        (2 marks)

     (iv)     The profit maximising level of output.        (2 marks)

     (v)     Maximum profit.        (2 marks)

                                                               **(Total: 20 marks)**

### QUESTION THREE

(a)    (i)     Define the term "capital" as a factor of production.        (2 marks)

         (ii)     Summarise four roles of capital in economic development.        (4 marks)

(b)    Highlight four factors that might lead to increasing return to scale in the production process.        (4 marks)

(c)    Differentiate between "marginal cost" and "marginal revenue".        (4 marks)

(d)    Describe three circumstances under which the concept of opportunity cost is applicable in an economy.        (6 marks)

                                                               **(Total: 20 marks)**

**QUESTION FOUR**

(a)  (i)  Define the term "fiscal policy".                                                    (2 marks)

     (ii)  List four instruments of fiscal policy.                                             (4 marks)

(b)  Outline six objectives of fiscal policies in an economy.                                  (6 marks)

(c)  The following data relate to a hypothetical economy of country Zed:

|                        | Sh. "million" |
|------------------------|---------------|
| Imports                | 3,000         |
| Exports                | 5,000         |
| Autonomous consumption | 30,000        |
| Government spending    | 24,000        |
| Investment             | 6,000         |

**Required:**
The equilibrium national income of country Zed, given that the country's marginal propensity to save is 0.4.  (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a)  Summarise five benefits of economic growth and development to an economy.                 (5 marks)

(b)  Enumerate five factors that could limit credit creation by commercial banks.              (5 marks)

(c)  Explain the effects of high interest rates on:

     (i)  Investments.                                                                          (2 marks)

     (ii)  Inflation.                                                                           (2 marks)

     (iii)  Employment.                                                                         (2 marks)

     (iv)  Exchange rate.                                                                       (2 marks)

     (v)  National income.                                                                      (2 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a)  With the help of a well labelled diagram, using indifference curve analysis, derive the demand curve for a normal good.                                                                                       (8 marks)

(b)  Outline six salient features of a firm operating under oligopoly market.                  (6 marks)

(c)  (i)  Explain the term per capita income.                                                  (2 marks)

     (ii)  Highlight four uses of per capita income.                                           (4 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

(a)  Explain the term "money illusion".                                                        (2 marks)

(b)  With the help of a diagram, explain inelastic supply.                                     (4 marks)

(c)  (i)  Define the term "economic planning".                                                 (2 marks)

     (ii)  Suggest six policy measures that could be implemented to combat poverty in developing countries.  (6 marks)

(d)  The market demand and supply functions of commodity **X** are given below:

$Q_d = 50 - 2P$

$Q_s = -40 + 3P$

Where:  $Q_d$ is the quantity demanded
        $Q_s$ is the quantity supplied
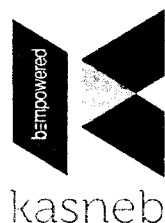        P  is the price

**Required:**
The equilibrium price and quantity of commodity **X**.                                         (6 marks)

**(Total: 20 marks)**

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

**MONDAY: 27 November 2017.**                                **Time Allowed: 3 hours.**

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

## QUESTION ONE
(a)     Highlight four factors that promote the existence of monopolies in an economy.          (4 marks)

(b)     Enumerate four contributions of non banking financial institutions in an economy.          (4 marks)

(c)     Outline six problems associated with the following approaches of measuring national income:

    (i)     The value added approach.                                                          (6 marks)

    (ii)    The expenditure approach.                                                        (6 marks)
                                                                                    **(Total: 20 marks)**

## QUESTION TWO
(a)     Distinguish between "arc elasticity" and "point elasticity" of demand.               (4 marks)

(b)     Summarise four objectives of trade unions.                                        (4 marks)

(c)     Using indifference curve analysis, illustrate the case for the following types of goods:

    (i)     Perfect substitutes.                                                          (6 marks)

    (ii)    Complementary goods.                                                        (6 marks)
                                                                                    **(Total: 20 marks)**

## QUESTION THREE
(a)     Highlight five limitations of indifference curve analysis.                          (5 marks)

(b)     Argue five cases against specialisation of trade.                                  (10 marks)

(c)     The data below relate to the demand and supply of a certain commodity:

| Unit Price (Sh.) | Quantity demanded (Units) | Quantity supplied (Units) |
| --- | --- | --- |
| 5 | 160,000 | 40,000 |
| 10 | 150,000 | 52,000 |
| 15 | 138,000 | 60,000 |
| 20 | 105,000 | 80,000 |
| 25 | 96,000 | 125,000 |
| 30 | 65,000 | 138,000 |
| 35 | 50,000 | 180,000 |

**Required:**
The equilibrium price and quantity of the commodity using the graphical method.          (5 marks)
                                                                                    **(Total: 20 marks)**

## QUESTION FOUR

(a)     Explain two reasons why the marginal cost curve always intersects the average cost curve at the lowest point.

(4 marks)

(b)     Outline six limitations of a monopoly market structure in an economy.

(6 marks)

(c)     Discuss five barriers to occupational mobility of labour as a factor of production.

(10 marks)

**(Total: 20 marks)**

## QUESTION FIVE

(a)     The following information relates to the national income statistics of a hypothetical economy in billions of shillings:

Gross national product (at market price)          777
Depreciation allowance                             143
Subsidies                                           26
Indirect taxes                                     133

**Required:**

(i)     Net national product at market price.

(2 marks)

(ii)    Net national product at factor cost.

(2 marks)

(b)     Examine three motives for holding money as advanced by Keynes.

(6 marks)

(c)     Discuss ten causes that could lead to high cost of living in a developing country.

(10 marks)

**(Total: 20 marks)**

## QUESTION SIX

(a)     Using an appropriate diagram, analyse the relationship between the marginal product curve and the average product curve.

(5 marks)

(b)     With the aid of a well labelled diagram, explain how monetary policy could be used to control inflationary gap in an economy.

(5 marks)

(c)     Describe five instruments of monetary policy that could be used to control the level of money supply in an economy.

(10 marks)

**(Total: 20 marks)**

## QUESTION SEVEN

(a)     Outline seven challenges encountered by developing countries when implementing development plans.          (7 marks)

(b)     The following information relates to the commodity and money markets of a certain closed economy in billions of shillings:

$$Y = C + I$$
$$C = 100 + 0.5Y$$
$$I = 500 - 10r$$
$$M_{DT} = 0.25Y$$
$$M_{DS} = 300 - 20r$$
$$M_S = 400$$

Where:  Y is the national income
        C is the consumption function
        I is the investments function
        r is the rate of interest
        $M_{DT}$ is the precautionary and transactionary demand for money
        $M_{DS}$ is the speculative demand for money
        $M_S$ is the money supply

**Required:**

(i)     The IS function.

(4 marks)

(ii)    The LM function.

(4 marks)

(iii)   The equilibrium level of interest rate.

(3 marks)

(iv)    The equilibrium level of national income.

(2 marks)

**(Total: 20 marks)**

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# KASNEB

## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

MONDAY: 22 May 2017.                                          Time Allowed: 3 hours.

Answer any FIVE questions.                                    ALL questions carry equal marks.

## QUESTION ONE
(a)     With the aid of a diagram, explain the backward bending supply curve of labour.                 (4 marks)

(b)     Highlight six assumptions of the law of variable proportions as applied in the theory of production.                 (6 marks)

(c)     Discuss five differences between "monopoly" and "monopolistic" market structures.                 (10 marks)
                                                                                    (Total: 20 marks)

## QUESTION TWO
(a)     The following information relate to the quantity consumed of a certain commodity at different price levels and income levels of a consumer.

| Quantity (Units) | Price (Sh.) | Income (Sh.) |
|---|---|---|
| 120 | 160 | 60,000 |
| 100 | 180 | 50,000 |

**Required:**
(i)     The price elasticity of demand of the commodity.                 (3 marks)

(ii)    The income elasticity of demand of the commodity.                 (3 marks)

(iii)   On the basis of your results in (a)(i) and (a)(ii) above, explain the nature of the commodity.                 (2 marks)

(b)     Citing two relevant examples, explain the term "giffen good".                 (4 marks)

(c)     Summarise eight factors that might lead to a rightward shift of the demand curve.                 (8 marks)
                                                                                    (Total: 20 marks)

## QUESTION THREE
(a)     Outline five effects of a price decontrol.                 (5 marks)

(b)     With the aid of a diagram, explain the production possibility frontier.                 (5 marks)

(c)     Developing countries face the challenge of rising external debt that leads to economic stagnation.

(i)     State five causes of high external debt in developing countries.                 (5 marks)

(ii)    Outline five economic policies that could be implemented by developing countries to reduce the level of external debt.                 (5 marks)
                                                                                    (Total: 20 marks)

## QUESTION FOUR
(a)     Citing relevant examples, distinguish between the terms "leakages" and "injections" as used in national income statistics.                 (4 marks)

(b)     Explain whether the following activities are part of gross domestic product (GDP):

(i)     Pensioners do community work for free.                 (1 mark)

(ii)    A supermarket buys products to sell to customers next year.                 (1 mark)

(iii)   Patients who were hurt in a car accident were treated in a hospital.                 (1 mark)

(iv)    Fruits and vegetables were sold in the local market.                 (1 mark)

(c)     The following data relate to the economy of country X:

|  | Sh.billion |
|---|---|
| Consumption | 620 |
| Investment | 230 |
| Government purchases | 120 |
| Exports | 610 |
| Imports | 490 |

**Required:**
Gross domestic product (GDP) of country X.                                          (2 marks)

(d)     Discuss five determinants of money supply in an economy.                          (10 marks)
**(Total: 20 marks)**

## QUESTION FIVE
(a)     With the aid of well labelled diagrams, explain:

   (i)     The short-run normal profit of a firm operating in a perfectly competitive market structure.     (4 marks)

   (ii)    The short-run supernormal profit of a firm operating in a perfectly competitive market structure.     (4 marks)

(b)     Explain four effects of inflation on the key functions of money.                          (4 marks)

(c)     Discuss four differences between commercial banks and non-banking financial institutions.     (8 marks)
**(Total: 20 marks)**

## QUESTION SIX
(a)     Highlight five limitations of a planned economy.                          (5 marks)

(b)     Outline eight circumstances under which the law of demand is violated.                          (8 marks)

(c)     With the aid of a diagram, explain the shut-down price of a firm in perfect competition.     (7 marks)
**(Total: 20 marks)**

## QUESTION SEVEN
(a)     Summarise six limitations of using national income statistics in comparing the living standards of two countries.
                                                                                  (6 marks)

(b)     Outline six objectives of the monetary policy.                          (6 marks)

(c)     A producer of music videos is able to sell the music videos to individual consumers and to television stations.  The producer is able to separate the two types of consumers and sell them the same product at different prices.

The following are the demand curves for these two markets:

Television stations:          $Q_1 = 420 - 2P_1$

Individual consumers:          $Q_2 = 1,020 - 4P_2$

The total cost function is given as:

$C = 2,000 + 20Q$

$Q = Q_1 + Q_2$

Where:

$Q_1$ = Quantity demanded by television stations.
$Q_2$ = Quantity demanded by individual consumers.
$P_1$ = Price charged to television stations.
$P_2$ = Price charged to individual consumers.

**Required:**
The price charged and quantity demanded in each market.                          (8 marks)
**(Total: 20 marks)**

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# KASNEB

## ATD LEVEL III

### PRINCIPLES OF ECONOMICS

**MONDAY: 21 November 2016.**                                   **Time Allowed: 3 hours.**

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

**QUESTION ONE**

(a)     Distinguish between "positive economics" and "normative economics".                                   (4 marks)

(b)     Summarise eight benefits of specialisation of trade.                                   (8 marks)

(c)     The market for a certain commodity is represented by the following functions:

$$Q + \tfrac{1}{3}P \quad = \quad 10$$

$$Q + 15 \quad = \quad 4P$$

Where;

P is the price of the commodity.
Q is the quantity supplied.

**Required:**
The equilibrium price and quantity of the commodity.                                   (8 marks)
**(Total: 20 marks)**

**QUESTION TWO**

(a)     Outline six factors that lead to a leftward shift in the supply curve.                                   (6 marks)

(b)     Describe four applications of the indifference curve analysis.                                   (4 marks)

(c)     Distinguish between "inelastic demand" and "inelastic supply" for a commodity.                                   (4 marks)

(d)     Explain six limitations of consumer sovereignty.                                   (6 marks)
**(Total: 20 marks)**

**QUESTION THREE**

(a)     Outline two properties of isoquant curves.                                   (2 marks)

(b)     Explain four factors that determine demand for labour in an economy.                                   (4 marks)

(c)     Justify the need for negotiation of higher wages by trade unions.                                   (4 marks)

(d)     Discuss five factors that are responsible for wage differentials within the same occupation.                                   (10 marks)
**(Total: 20 marks)**

**QUESTION FOUR**

(a)     With reference to national income, explain the concept of multiplier as applied in an economy.                                   (4 marks)

(b)     Summarise six problems associated with the product approach of measuring national income.                                   (6 marks)

(c)     With the aid of a well labelled diagram, explain the circular flow of income for a closed economy with government intervention.                                   (6 marks)

(d)     Explain four arguments in favour of development planning in developing countries.                                   (4 marks)
**(Total: 20 marks)**

## QUESTION FIVE

(a) A plastic manufacturing firm sells 100 units of its product at a price of Sh.10 each and has a fixed cost of Sh.200 and marginal cost of Sh.4.

**Required:**

(i) The firm's profit. (3 marks)

(ii) The average cost. (2 marks)

(b) Using a well labelled diagram, explain three reasons why the short-run average cost curve (SRAC) is above the long-run average cost curve (LRAC). (6 marks)

(c) Outline five benefits of mobility of factors of production in an economy. (5 marks)

(d) Identify four characteristics of a monopoly market structure. (4 marks)

**(Total: 20 marks)**

## QUESTION SIX

(a) Country Y has had the value of its currency depreciate against the major currencies in the recent past.

Examine six effects of the loss of value of the currency to the economy of country Y. (6 marks)

(b) Discuss four reasons that make it possible for commercial banks to create credit for their customers. (8 marks)

(c) Outline six factors that limit effective implementation of monetary policy in developing countries. (6 marks)

**(Total: 20 marks)**

## QUESTION SEVEN

(a) Identify four policy measures that might be used to control deflationary gap in an economy. (4 marks)

(b) A consumer in a certain economy has a current consumption of Sh.1,550 and a marginal propensity to consume of 0.75.

**Required:**

The consumer's savings function. (4 marks)

(c) Summarise six characteristics of a good development plan. (6 marks)

(d) Outline six reasons why the prices of agricultural products fluctuate more than those of manufactured goods. (6 marks)

**(Total: 20 marks)**

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# 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:

$P = 68 - 4Qd - Qd^2$
$P = 12 + 2Qs + Qs^2$

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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# KASNEB

## ATD LEVEL III

## PRINCIPLES OF ECONOMICS

## PILOT PAPER

September 2015.                                                        Time Allowed: 3 hours.

Answer any FIVE questions.                                  ALL questions carry equal marks.

### QUESTION ONE

(a)    Briefly explain five factors affecting the supply of a commodity.                                    (5 marks)

(b)    Using appropriate diagrams, distinguish between a stable and unstable equilibrium.          (8 marks)

(c)    (i)    Define the term "Price Elasticity of Demand".                                                       (2 marks)

        (ii)   Explain any three factors affecting the price elasticity of demand.                          (5 marks)
                                                                                                      (Total: 20 marks)

### QUESTION TWO

(a)    With reference to the liquidity preference theory,  explain three reasons why people demand money.          (6 marks)

(b)    Highlight four functions of money.                                                                  (4 marks)

(c)    Explain five functions performed by the Central Bank of your country.                            (10 marks)
                                                                                                      (Total: 20 marks)

### QUESTION THREE

(a)    (i)    State the law of diminishing marginal utility.                                             (2 marks)

        (ii)   Highlight any three assumptions upon which this law is based.                             (3 marks)

(b)    With the aid of a diagram, explain how the consumer's equilibrium is derived under the indifference curves approach.
                                                                                                         (5 marks)

(c)    Using the indifference curves analysis, distinguish between a "normal good" and an "inferior good".    (10 marks)
                                                                                                      (Total: 20 marks)

### QUESTION FOUR

(a)    Using appropriate examples, distinguish between "fixed costs" and "variable costs".              (4 marks)

(b)    Briefly explain four sources of monopoly power in a market.                                       (8 marks)

(c)    Using appropriate diagrams, discuss the equilibrium of a firm under perfect competition both in the shortrun and in the longrun.                                                                             (8 marks)
                                                                                                      (Total: 20 marks)

### QUESTION FIVE

(a)    Explain three main approaches used in the computation of National Income.                         (6 marks)

(b)    The table below represents values of economic transactions for a hypothetical country (figures in billions of shillings).

|                           | (Sh. billions) |
| ------------------------- | -------------- |
| Profits of corporations   | 16             |
| Salaries and wages        | 90             |
| Rent income               | 6              |
| Depreciation              | 16             |
| Indirect taxes            | 14             |
| Subsidies                 | 6              |
| Net factor income abroad  | -10            |
| Net interest              | 8              |

**Required:**

(i) Gross Domestic Product. (2 marks)

(ii) Net Domestic Product at factor cost. (2 marks)

(iii) Net Domestic Product at market prices. (2 marks)

(iv) Gross National Product. (2 marks)

(v) National Income. (2 marks)

(c) Using appropriate examples, distinguish between "economic growth" and "economic development". (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

(a) (i) State the law of diminishing returns. (2 marks)

(ii) Using an appropriate diagram, discuss the three stages of production according to this law. (8 marks)

(b) Explain five features of a free market economy as a way of allocating resources among alternative uses. (10 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

(a) Briefly explain four stages of a trade cycle. (8 marks)

(b) The following are economic functions for company ABC Limited:

$$Qn = 48 - 2P^2$$

$$Qb = 6p^2 - 8P$$

Where P represents price and Q is the quantity.

**Required:**

(i) Giving reasons, identify the demand curve and the supply curve. (4 marks)

(ii) Determine the price and the quantity at which the market is at equilibrium. (6 marks)

(c) Highlight two economies of scale enjoyed by a firm as a result of large scale production. (2 marks)

**(Total: 20 marks)**

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