ATD LEVEL III

PRINCIPLES OF ECONOMICS

WEDNESDAY: 21 August 2024. Morning Paper.   **Time Allowed: 2 hours.**

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1.   Which one of the following statements **BEST** describes economics?
     A.   How society allocates scarce resources to satisfy unlimited wants
     B.   How to ensure resources are equally shared
     C.   How resources should be allocated
     D.   How to increase economic development   (2 marks)

2.   Which one of the following factors might cause movement along a supply curve?
     A.   Existence of favourable weather conditions
     B.   Increase in indirect tax
     C.   Change in price
     D.   Increase in government subsidy   (2 marks)

3.   Which one of the following conditions is necessary for price discrimination by a monopoly?
     A.   There must be perfect knowledge about the market
     B.   The elasticity of demand in different markets must be different
     C.   The markets should not be separate
     D.   There must be no barrier to entry into the industry

                                                                                        (2 marks)

4.   All things being equal, which one of the following statements would **NOT** induce economic growth?
     A.   Increase in the stock of machinery
     B.   Improvement in the level of technology
     C.   Increase in the number of labour force
     D.   Increase in the consumption of products   (2 marks)

5.   Which one of the following statements is an advantage of small-scale industries in developing countries?
     A.   Stiff competition from large scale industries
     B.   A country's balance of payments position improves
     C.   Small scale industries enjoy technical economies of scale
     D.   The government provides necessary infrastructure   (2 marks)

6.   Which one of the following statements is **NOT** a limitation of Marshallian utility analysis? The analysis
     _____.
     A.   considers marginal utility of money to be variable
     B.   does not consider the income and substitution effects
     C.   assumes that consumers will always behave rationally
     D.   assumes perfect divisibility of commodities   (2 marks)

7.   Which one of the following factors does not influence demand?
     A.   Price of the product
     B.   Income of the consumers
     C.   Price of substitute goods
     D.   Cost of production   (2 marks)

8. Which one of the following statements **BEST** describes external economies of scale?
   A. Problems a firm experience due to expansion
   B. Benefits which accrue to a firm as a result of growth in the whole industry
   C. Benefits which a firm derives from large purchases
   D. Advantages that accrue to a single firm independent of other firms in the industry (2 marks)

9. Which one of the following statements refers to a demerit of delocalisation of firms?
   A. Adverse environmental problems due to concentration of firms in one region
   B. Overdependence on the products of a single industry
   C. Contributes to rural urban migration
   D. Production of substandard goods due to protection from government (2 marks)

10. Which one of the following statements is **TRUE** during recession?
    A. Unemployment increases
    B. Employment increases
    C. Unemployment decreases
    D. Salary increases (2 marks)

11. Which one of the following statements is **NOT** a characteristic of mixed economic system?
    A. Government provides the essential goods and services
    B. There is ownership of both private and public properties
    C. There are a large number of buyers and sellers
    D. Both the private and public sectors create employment (2 marks)

12. Which one of the following is a fiscal policy to control inflation?
    A. Bank rate
    B. Moral suasion
    C. Reserve margins
    D. Borrowing (2 marks)

13. Which one of the following statements is **NOT** a characteristic of indifference curves?
    A. They are negatively sloped
    B. They are concave to the origin
    C. They are asymptotic
    D. Indifference curves never intersect (2 marks)

14. Which one of the following factors influence supply of a commodity?
    A. Technology
    B. Advertising
    C. Population
    D. Credit (2 marks)

15. The branch of economics known as macroeconomics is based on the principle of_____.
    A. producer
    B. opportunity cost
    C. consumer
    D. national income (2 marks)

16. Which one of the following statements is **NOT** a limitation of consumer sovereignty?
    A. The size of the consumers income
    B. The existence of oligopolies
    C. The nature of economic system
    D. The range of goods available (2 marks)

Use the information given below to answer question 17 and question 18.

The table below represent hypothetical figures for total utility (TU) derived from consumption of two goods X and Y. The price of X is Sh.10 and Sh.6 for Y.

S/No	Units	TU (X)	TU (Y)
1.	4	144	120
2.	8	240	208
3.	12	320	272
4.	16	380	320

17.   Determine the marginal utility for good X at 4 units.
        A.   24
        B.   30
        C.   15
        D.   36   (2 marks)

18.   Determine the marginal utility for good Y at 16 units.
        A.   14
        B.   12
        C.   16
        D.   20   (2 marks)

19.   Which one of the following statements describes the term "economic planning"?
        A.   Increase in a country's national income including institutional and structural changes
        B.   Increase in the Gross National Product represented by a rightward shift of aggregate demand
        C.   A deliberate attempt by the State to make the best use of a country's resources
        D.   Increase in the productive capacity of an economy   (2 marks)

20.   Which one of the following statements is an economic effect of increased money supply in an economy?
        A.   Producers can produce more at the same price as before
        B.   High demand of goods due to increased purchasing power
        C.   Interest rates increase due to excess liquidity
        D.   Demand exceeds supply thus market forces exert pressure on prices to rise causing inflation (2 marks)

21.   Which one of the following statements describes public goods?
        A.   Goods consumed in public
        B.   Goods that are ready to be consumed
        C.   Goods used to produce other goods
        D.   Goods available to all   (2 marks)

22.   Which one of the following statements is a type of labour mobility?
        A.   Individual mobility
        B.   Group mobility
        C.   Horizontal mobility
        D.   Temporary mobility   (2 marks)

23.   Which one of the following statements is **NOT** a law of returns to scale?
        A.   Law of average returns to scale
        B.   Law of constant returns to scale
        C.   Law of increasing returns to scale
        D.   Law of decreasing returns to scale   (2 marks)

24.   Which one of the following is a fiscal policy tool?
        A.   Bank rate policy
        B.   Taxation policy
        C.   Open market operation
        D.   Marginal value   (2 marks)

25. Which one of the following statements defines devaluation of currency?
     A. Market forces lowering the value of a country's currency
     B. Central bank increasing the value of a country's currency
     C. Commercial bank's lowering their lending rate
     D. Central bank lowering the value of a country's currency   (2 marks)

26. Which one of the following phases correctly outlines a business cycle?
     A. Expansion, maturity, depression, revival
     B. Boom, constant, diminishing, revival
     C. Boom, recession, depression, revival
     D. Expansion, boom, depression, revival   (2 marks)

27. Which one of the following measures may **NOT** correct the balance of payments deficit?
     A. Import substitution
     B. Revaluation of currency
     C. Export promotion
     D. Economic integration   (2 marks)

28. Which one of the following statements describes competitive demand? It is demand for goods_____.
     A. used independently
     B. used together
     C. with several uses
     D. that serve the same purpose   (2 marks)

29. Which one of the following statements is an assumption of the law of diminishing marginal utility?
     A. Units of the commodity must be consumed continuously
     B. Price level should vary with goods purchased
     C. Consumer can vary the types of goods consumed
     D. Consumer can consume different units of the commodity   (2 marks)

30. Which one of the following is **NOT** a level of production?
     A. Tertiary production
     B. Indirect production
     C. Secondary production
     D. Primary production   (2 marks)

31. Which one of the following statements explains the term "price discrimination"? Selling_____.
     A. different goods at similar prices
     B. similar goods at similar prices
     C. different goods at different prices
     D. similar goods at different prices   (2 marks)

Use the information given below to answer question 32 and question 33.

The following equation represents the demand and supply functions for a commodity in a certain market.
$Q_D = 10 - 2P$
$Q_S = -5 + 3P$

Where P is the price and Q is the quantity of the commodity.

32. Determine the equilibrium price.
     A. 2
     B. 5
     C. 3
     D. 8   (2 marks)

33. Determine the equilibrium quantity.
     A. 8
     B. 4
     C. 5
     D. 2   (2 marks)

34. Which one of the following statements explains the concept of producer equilibrium?
    A. Level of output which gives the firm maximum profit
    B. Level of output where the firm minimises loss
    C. Level of output which earns the producer normal profits
    D. Level of output where producer utilises all inputs   (2 marks)

35. Which one of the following statements is an advantage of localisation of industries?
    A. Decreased output
    B. Increased externalities
    C. Reduced competition
    D. Available skilled workforce   (2 marks)

36. Which one of the following is **NOT** a characteristic of money?
    A. Unit of account
    B. General acceptability
    C. Stability in value
    D. Malleability   (2 marks)

37. Which one of the following statements is **NOT** a cause of fluctuating prices of agricultural commodities?
    A. Increase in taxation
    B. Changes in climate
    C. Gestation period
    D. Differences in the elasticities of supply   (2 marks)

38. Which one of the following is **NOT** the cause of external debt problems in developing countries?
    A. Corruption
    B. Poor terms of trade
    C. Calamities
    D. High taxation   (2 marks)

39. Which one of the following statements is a cause of demand-pull inflation?
    A. Increase in population
    B. Decrease in interest rates
    C. Increase in taxes
    D. Boom in an economy   (2 marks)

40. Which one of the following is **NOT** a type of unemployment?
    A. Keynesian unemployment
    B. Imported unemployment
    C. Frictional unemployment
    D. Hidden unemployment   (2 marks)

41. Which one of the following statements is **NOT** a cause of a deflationary gap in an economy?
    A. Increase in income tax
    B. Decrease in government expenditure
    C. Increase in interest rate
    D. Fear of retrenchment   (2 marks)

42. Which one of the following statements is **NOT** an assumption of the marginal productivity theory of wage determination?
    A. Labour is homogeneous
    B. Perfect competition
    C. Commodity is homogeneous
    D. Existence of Perfect knowledge   (2 marks)

43. Which one of the following statements is **NOT** a role of the informal sector in an economy?
    A. Diversification of the economy
    B. Controlling of imports
    C. Creation of employment
    D. Increase government revenue   (2 marks)

44. Which one of the following statements is a characteristic of underdevelopment in developing countries?
   A. Institutional constraints
   B. High taxation
   C. Low government expenditure
   D. Surplus balance of payments (2 marks)

45. Which one of the following statements is **NOT** a measure to control geographical mobility of labour?
   A. Construction of low-cost houses
   B. Giving hardship allowance
   C. Development of infrastructure in underdeveloped areas
   D. Adopting modern technology (2 marks)

46. The following conditions must be satisfied for a consumer to be considered as rational **EXCEPT**_____.
   A. axiom of selection
   B. axiom of transformation
   C. axiom of completeness
   D. axiom of non-satisfaction (2 marks)

47. Which one of the following factors is **NOT** a cause of balance of payments deficit?
   A. Political instability
   B. Calamities
   C. High taxation
   D. Inflation (2 marks)

48. The following are forms of economic integration **EXCEPT** _____.
   A. trade creation
   B. monetary union
   C. common market
   D. customs union (2 marks)

49. Economists typically assume that the main aim of a firm is to maximise _____.
   A. revenue
   B. profit
   C. utility
   D. sales (2 marks)

50. Which one of the following factors does not **NOT** determine the level of national income?
   A. Technology
   B. Per capita income
   C. Level of employment
   D. Terms of trade (2 marks)

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

WEDNESDAY: 24 April 2024. Morning Paper.   **Time Allowed: 2 hours.**

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1.   Which of the following statements defines opportunity cost?
      A.   Lack of opportunity
      B.   Cost of foregone best alternative
      C.   Limited choice
      D.   Cost of preferred choice   (2 marks)

2.   Choose the statement that does **NOT** represent a characteristic of isoquants.
      A.   Isoquants are positively sloped
      B.   They are non-intersecting
      C.   The higher the isoquant the higher the output
      D.   Do not touch any of the axis   (2 marks)

3.   Which one of the following statements is **NOT** a solution to inflation?
      A.   Increase taxes
      B.   Increase production
      C.   Reduce imports
      D.   Increase wages   (2 marks)

4.   Identify the factor that may cause a movement along a demand curve.
      A.   Consumer's income
      B.   Tastes and preferences
      C.   Price of the good
      D.   Seasonal change   (2 marks)

5.   Which of the following is an exception to the law of diminishing marginal utility?
      A.   Substitute goods
      B.   Complimentary goods
      C.   Inferior goods
      D.   Liquor goods   (2 marks)

6.   Which of the following is **NOT** a method for measuring a country's national income?
      A.   Output approach
      B.   Per capita approach
      C.   Expenditure approach
      D.   Income approach   (2 marks)

7.   Identify an advantage of adopting protectionism policy in a country.
      A.   Improved balance of payment
      B.   Wide variety of goods available in a country
      C.   High quality goods produced in a country
      D.   Access to modern technology   (2 marks)

8. Which of the following is a motive for liquidity preference?
   A. Exchange motive
   B. Saving motive
   C. Speculative motive
   D. Expansionary motive   (2 marks)

9. Which of the following statements is a characteristic of a developing country?
   A. Favourable terms of trade
   B. Low per capita income
   C. High literacy levels
   D. Diversification in production   (2 marks)

10. The exception to the law of supply is applied in which of the following case?
    A. Backward bending supply curve of labour
    B. Production possibility curve
    C. Marginal product curve
    D. Expansion path   (2 marks)

11. Choose the statement that explains the concept of price control.
    A. Where prices of goods are set through bargaining
    B. Where market equilibrium price is applied
    C. Where sellers fix maximum and minimum price
    D. Where the prices are fixed through government legislation   (2 marks)

12. Which of the following is **NOT** a monetary policy?
    A. Open market operation
    B. Selective Credit Control
    C. Taxation policy
    D. Cash ratio   (2 marks)

13. Choose a benefit of economic planning in a country.
    A. There is misappropriation of resources
    B. Reduced foreign aid in a country
    C. There is duplication of economic resources
    D. Corrects the challenges of price mechanism   (2 marks)

14. Identify a challenge faced by the agricultural sector in Kenya.
    A. Wide variety of goods
    B. Changing weather patterns
    C. Increased government subsidies
    D. Stable prices   (2 marks)

15. Which of the following is **NOT** a function of commercial banks?
    A. Lender of last resort
    B. Accepts deposits
    C. Provides safety lockers
    D. Acts as agents of the stock exchange   (2 marks)

16. Which of the following expresses GNP correctly?
    A. GNP = NNP - Depreciation
    B. GNP = GDP + Net factor income from abroad
    C. GNP = NNI – Indirect tax
    D. GNP = GDP - Subsidies + Net factor income from abroad   (2 marks)

Use the information given below to answer question 17 and question 18.

A firm is producing 10 units of output at a total cost of Sh.20,000 with its fixed cost being Sh.10,000. The firm increased its output to 12 units and the total cost increased to Sh.25,000.

17. Determine the firm's marginal cost of producing the 12th unit of output.
    A. 5,000
    B. 15,000
    C. 10,000
    D. 2,500   (2 marks)

18. Determine the firm's average variable cost when it produces the 12th unit of output.
    A. 15,000
    B. 7,500
    C. 1,250
    D. 5,000   (2 marks)

19. Which of the following is a characteristic of a perfect competition market structure?
    A. Few sellers
    B. Many buyers
    C. Different prices
    D. Non-uniform goods   (2 marks)

20. Identify the correct representation of the stages of the law of diminishing returns.
    A. Constant returns, no returns, increasing returns
    B. Diminishing returns, no returns, increasing returns
    C. No returns, constant returns, diminishing returns.
    D. Increasing returns, constant returns, diminishing returns   (2 marks)

21. Which of the following statements **BEST** explains the concept of economic development?
    A. Economic development is an increase in a country's national income
    B. Economic development is an increase in a country's net income from abroad
    C. Economic development is an increase in a country's GNP plus institutional changes
    D. Economic development is an increase in a country's GNP as well as GDP   (2 marks)

22. Classify the **TWO** broad sources of public debt.
    A. Internal and external
    B. Regional and international
    C. Floating and self-liquidating
    D. Short term and long term   (2 marks)

23. Choose the policy that explains a country's reliance on its locally produced goods.
    A. Export promotion
    B. Import substitution
    C. Protectionism policy
    D. Import restriction   (2 marks)

24. Identify an assumption of indifference curve analysis.
    A. Consumer's income increases
    B. Consumers are irrational
    C. Indifference curves are convex to the origin
    D. Commodity is homogeneous and divisible   (2 marks)

25. Which of the following is **NOT** a function of money?
    A. Measure of living standards
    B. Measure of value
    C. Medium of exchange
    D. Standard of deferred payments   (2 marks)

26. The necessary condition for profit maximisation by a firm is attained where, _____.
    A. TR > TC
    B. AC = AR
    C. VC < FC
    D. MR = MC   (2 marks)

27. The following are the effects of fixing a price floor. Which one is **NOT?**
    A. It encourages investments
    B. It creates an excess demand
    C. It causes unemployment
    D. Producers are assured of stable incomes   (2 marks)

28. Which one of the following is an objective of a trade union?
    A. Creation of employment
    B. Promotes investments
    C. Improvement of infrastructure
    D. Promote training of workers (2 marks)

29. The following are the characteristics of ''drive to maturity stage'' according to Rostow's stages of economic growth. Which one is **NOT**?
    A. There is low external influence
    B. The economy is fully monetised
    C. High savings
    D. Rapid technological change (2 marks)

Use the following information to answer question 30 and question 31.

The following information relates to a consumer in a certain market.

Price of X (Sh.)	Income (Sh.)	Price of Y (Sh.)	Quantity demanded of commodity X (units)
12	250	20	75
15	500	30	90

30. Determine the cross elasticity of demand.
    A. 3
    B. 0.6
    C. 0.4
    D. 0.8 (2 marks)

31. From the data provided above, interpret your results.
    A. Unitary
    B. Perfectly elastic
    C. Elastic
    D. Inelastic (2 marks)

32. Which one of the following is **NOT** a method of price determination under oligopoly?
    A. Price mechanism
    B. Price under collusion
    C. Price leadership
    D. Independent pricing (2 marks)

33. The following are the characteristics of a production possibility frontier. Which one is **NOT?**
    A. Only two goods are produced
    B. Technology is constant
    C. Assumes a situation of full employment
    D. Opportunity cost is constant. (2 marks)

34. Which one of the following is a merit of a controlled market system?
    A. There is unequal distribution of income
    B. There is freedom of choice
    C. There is control over externalities
    D. There is existence of monopolies (2 marks)

35. The following are the merits of adopting labour-intensive technique of production. Which one is **NOT?**
    A. It is flexible
    B. Promotes creation of employment
    C. Motivates workers
    D. Saves time (2 marks)

36. Which one of the following is an assumption of indifference curves?
    A. Prices are constant
    B. Goods are indivisible
    C. Consumers are not rational
    D. Goods are heterogeneous (2 marks)

37. A firm has a total cost function given as:
    TC=156+20Q-3Q^2 +7Q^3

    Required:
    Calculate the marginal cost function of the firm.
    A.   20-3Q+7Q^2
    B.   6Q+21Q^2
    C.   156+20Q-6Q+21Q^2
    D.   20Q-6Q+21Q^2 (2 marks)

38. Which one of the following is a role of co-operatives?
    A.   Accepting deposits
    B.   Lender of last resort
    C.   Creation of employment
    D.   Development of affordable housing   (2 marks)

39. The following factors determine the price of land as a factor of production. Which one does **NOT?**
    A.   Government policy
    B.   Availability of credit
    C.   Climatic conditions
    D.   Development of infrastructure   (2 marks)

40. Which one of the following is **NOT** a property of isoquants?
    A.   They are concave to the origin
    B.   They are asymptotic
    C.   They are negatively sloped
    D.   They are dense   (2 marks)

41. Which one of the following statements is a cause of monopoly?
    A.   Collusion of firms
    B.   Competitive advertising
    C.   Super-normal profits
    D.   Credit facilities   (2 marks)

42. The following are the adjustments to the output method of measuring national income. Which one is **NOT?**
    A.   Depreciation
    B.   Indirect taxes
    C.   Value added
    D.   Net factor income from abroad   (2 marks)

43. Which one of the following factors determine the rate of interest in an economy?
    A.   Availability of credit
    B.   Government policy
    C.   Rate of economic development
    D.   Level of foreign investments   (2 marks)

44. Which one of the following is **NOT** a non-monetary policy that is used to control inflation?
    A.   Price control
    B.   Controlling government expenditure
    C.   Output adjustment
    D.   Controlling interest rate   (2 marks)

45. Which one of the following is an objective of minimum wage legislation?
    A.   Controlling inflation
    B.   Controlling brain drain
    C.   Controlling corruption
    D.   Controlling rural-urban migration   (2 marks)

46. Identify a disadvantage of a country relying on foreign aid.
    A.   Better trade relations
    B.   Increased production
    C.   Improved balance of payments
    D.   Increased overdependence   (2 marks)

47. Which one of the following is **NOT** a non-tariff barrier in international trade?
    A. Giving subsidies
    B. Trade agreements
    C. Customs duties
    D. Foreign exchange control   (2 marks)

48. The following factors limit the success of economic integration in developing countries. Which one does **NOT?**
    A. Unfair foreign competition
    B. Existence of restrictions
    C. Poor infrastructure
    D. Level of technological development   (2 marks)

49. The demand function for a firm is given as: P=50
    Determine the marginal revenue function of the firm.
    A. MR=50
    B. MR=O.5Q
    C. MR=50Q^2
    D. MR=50Q   (2 marks)

50. Unemployment which occurs when employees are not fully utilised is known as _____.
    A. Cyclical unemployment
    B. Seasonal unemployment
    C. Structural unemployment
    D. Disguised unemployment   (2 marks)

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 4 December 2023. Morning Paper.   **Time Allowed: 3 hours.**

This paper has seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

QUESTION ONE
(a)   List **SIX** factors that determine the efficiency of labour as a factor of production.   (6 marks)

(b)   Distinguish between "deductive" and "inductive" method of economic analysis.   (4 marks)

(c)   Explain **FIVE** objectives of demonetisation of a currency.   (10 marks)
(Total: 20 marks)

QUESTION TWO
(a)   State **FIVE** exceptions to the law of demand.   (4 marks)

(b)   Distinguish between "macroeconomic theory" and microeconomic theory".   (4 marks)

(c)   Identify **SIX** merits of a planned economic system.   (6 marks)

(d)   Explain **SIX** reasons for government involvement in business activities.   (6 marks)
(Total: 20 marks)

QUESTION THREE
(a)   Explain **FIVE** effects of appreciation of a currency in an economy.   (10 marks)

(b)   Explain the term "own price elasticity of demand".   (2 marks)

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

Income (Sh.)	Price of X (Sh.)	Quantity demanded of X (Units)	Price of Y (Sh.)	Quantity demanded of Y (Sh.)
750	28	44	15	87
900	45	60	23	30

Required:
(i)   Determine the income elasticity of demand.   (4 marks)

(ii)   Outline **FOUR** applications of the concept of elasticity of supply.   (4 marks)
(Total: 20 marks)

QUESTION FOUR
(a)   Outline **FIVE** demerits of barter system of exchange.   (5 marks)

(b)   Highlight **FIVE** disadvantages of a monetary economy.   (5 marks)

(c)   With the help of a diagram, explain changes in supply.   (6 marks)

(d)   Enumerate **FOUR** characteristics of income consumption curve.   (4 marks)
(Total: 20 marks)

QUESTION FIVE

(a)   List **FIVE** factors that might lead to leftward shift in the optimal point of a firm.   (5 marks)

(b)   Analyse **THREE** limitations of the marginal productivity theory of interest rate determination.   (6 marks)

(c)   Outline **FOUR** disadvantages of mobility of labour in an economy.   (4 marks)

(d)   Summarise **FIVE** benefits of monopoly to an economy.   (5 marks)
                                                                                                                 (Total: 20 marks)

QUESTION SIX

(a)   Explain the term "debt-to GDP ratio".   (2 marks)

(b)   Describe **FIVE** forms of foreign aid to developing countries.   (5 marks)

(c)   (i)   Explain the term "galloping inflation".   (2 marks)

        (ii)   Enumerate **FIVE** merits of creeping inflation.   (5 marks)

(d)   Discuss **SIX** causes of unemployment in developing countries.   (6 marks)
                                                                                                                 (Total: 20 marks)

QUESTION SEVEN

(a)   Outline **FOUR** components of the balance of payment accounts.   (4 marks)

(b)   Highlight **FIVE** reasons why the liquidity-money (LM) curve is positively sloped.   (5 marks)

(c)   Explain **FIVE** methods that may be used to promote exports in developing countries.   (5 marks)

(d)   Using a diagram, describe the circular flow of income of a closed economy with government intervention.
                                                                                                                 (6 marks)
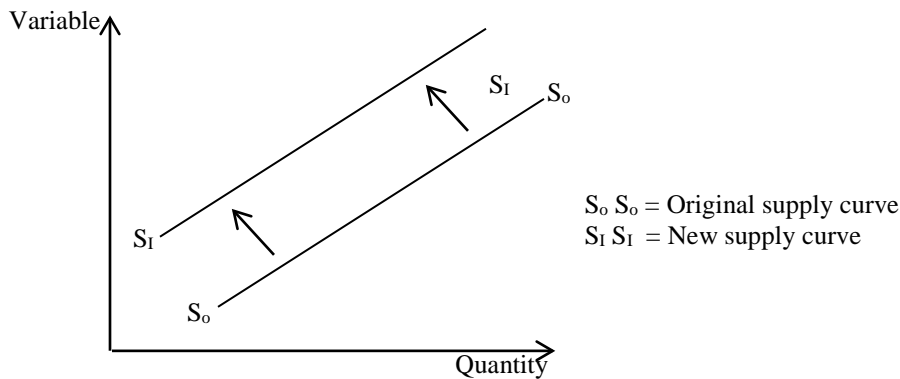   **(Total: 20 marks)**

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 21 August 2023. Morning Paper.   **Time Allowed: 3 hours.**

Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

QUESTION ONE

(a)   Distinguish between "composite demand" and "competitive supply".   (4 marks)

(b)   The following diagram relate to a firm in a certain industry:

$S_o S_o$ = Original supply curve
$S_I S_I$ = New supply curve

With reference to the above diagram, highlight **SIX** factors that might have caused the supply curve to shift to the left.   (6 marks)

(c)   Describe **FIVE** roles of commercial banks in an economy.   (10 marks)
                                                                                       (Total: 20 marks)

QUESTION TWO

(a)   Using demand and supply diagrams, explain the effects on the market equilibrium price and quantity transacted for commodity "A" given:

        (i)   An imposition of a per-unit tax on the suppliers of commodity "A".   (4 marks)

        (ii)   A reduction in the production cost of commodity "A".   (4 marks)

        (iii)   An increase in the price of commodity "B" which is a substitute for commodity "A".   (4 marks)

(b)   Explain **FOUR** factors that limit the multiplier effect in an economy.   (8 marks)
                                                                                       (Total: 20 marks)

QUESTION THREE

(a)   The following information shows the total product of a commodity:

Units of labour	Total product
0	0
1	20
2	50
3	90
4	120
5	140
6	150
7	155

Required:

(i)   Compute the marginal product.   (4 marks)

(ii)   Draw a diagram to show the relationship between total product and marginal product.   (4 marks)

(b)   Outline **SIX** effects of urban unemployment in the economies of developing countries.   (6 marks)

(c)   Identify **SIX** factors that influence the level of investment in an economy.   (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a)   Highlight **FIVE** features of a firm operating under a monopolistic competitive market.   (5 marks)

(b)   The commodity and money markets for a hypothetical economy are represented by the following:

Commodity market:
$$C = 540 + 0.3Y$$
$$I = 75 + 14r$$

Money market:
$$M_{DT} = 0.45Y$$
$$M_{DS} = 280 - 9r$$
$$M_S = 750$$

Required:

(i)   Derive the IS function.   (5 marks)

(ii)   Derive the LM function.   (5 marks)

(iii)   The equilibrium rate of interest and equilibrium level of national income.   (5 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Outline **FIVE** characteristics of public goods.   (5 marks)

(b)   With the help of a well labelled diagram, explain the concept of producer surplus.   (5 marks)

(c)   Explain **FIVE** effects of depreciation of a currency in an economy.   (10 marks)

(Total: 20 marks)

QUESTION SIX

(a)   The following data relates to a small hypothetical economy:

	Sh."millions"
Government expenditure	100,000
Private investments	40,000
Autonomous consumption	30,000
Exports	60,000
Imports	70,000

The marginal propensity to consume for this economy is 0.85.

Required:

(i)   Calculate the equilibrium level of national income.   (6 marks)

(ii)   Explain what would happen to the national income of the above economy if its currency appreciated.   (4 marks)

(b)   Enumerate **SIX** positive effects of inflation in an economy.   (6 marks)

(c)   Outline **FOUR** assumptions of the credit creation process.   (4 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Summarise **SIX** factors that limit the effectiveness of trade unions in developing countries.   (6 marks)

(b)   Explain **FIVE** roles of interest rate in an economy.   (5 marks)

(c)   Outline **FIVE** causes of the vicious circle of poverty in developing countries.   (5 marks)

(d)   State **FOUR** assumptions of the law of variable proportions.   (4 marks)

(Total: 20 marks)

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 24 April 2023. Morning Paper.   **Time Allowed: 3 hours.**

Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

QUESTION ONE

(a) (i)   Explain the term "free market system" as used in economics.   (2 marks)

     (ii) Explain **FOUR** advantages of a free market system in an economy.   (8 marks)

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

     (ii) Explain **THREE** determinants of price elasticity of demand.   (6 marks)
                                                                          (Total: 20 marks)

QUESTION TWO

(a) (i)   Using a diagram, explain the concept of indifference curves.   (4 marks)

     (ii) Outline **FOUR** properties of indifference curves.   (4 marks)

(b) Identify **FOUR** assumptions of the law of equi-marginal utility.   (4 marks)

(c) The following information relates to the demand and supply functions of two commodities:

Qd_1 $\quad = \quad 92 + 2P_2 - 4P_1$
Qs_1 $\quad = \quad -6 + 32P_1$
Qd_2 $\quad = \quad 82 - 3P_2 + P_1$
Qs_2 $\quad = \quad -5 + 15P_2$

Where; $\quad Qd_1$ = Quantity demanded of commodity 1
$\qquad\quad Qs_1$ = Quantity supplied of commodity 1
$\qquad\quad Qd_2$ = Quantity demanded of commodity 2
$\qquad\quad Qs_2$ = Quantity supplied of commodity 2
$\qquad\quad P_1$ $\quad$ = Price of commodity 1
$\qquad\quad P_2$ $\quad$ = Price of commodity 2

Required:

Determine the equilibrium price and quantity of commodities 1 and 2.   (8 marks)
                                                                          (Total: 20 marks)

QUESTION THREE

(a) Outline **SIX** merits associated with specialisation of labour.   (6 marks)

(b) Explain **THREE** applications of the concept of consumer surplus in an economy.   (6 marks)

(c) (i)   With reference to the theory of production, define the term "mobility of a factor". (2 marks)

     (ii) Explain **SIX** determinants of the supply of a factor of production in an economy. (6 marks)
                                                                          (Total: 20 marks)

QUESTION FOUR

(a) (i) With reference to market structure, define the term "price ring". (2 marks)

(ii) State **THREE** factors that could lead to the success of a price ring in business. (3 marks)

(b) Highlight **FIVE** differences between "monopolistic competition" and "monopoly market structures". (5 marks)

(c) Hazina, a medium size firm which specialises in the production of Nuts, has its determined cost structure per unit of Nuts produced as follows:

	Sh.
Fixed costs per period	30,000
Variable costs per unit of Nut	20
Selling price per Nut	60

Required:

(i) Compute the break-even number of Nuts that could facilitate economic profit. (2 marks)

(ii) Determine the number of Nuts that would give a profit of Sh.100,000. (2 marks)

(iii) If the price of Nut falls to Sh.40 per Nut, determine the breakeven level of output. (2 marks)

(d) Explain **FOIUR** factors that are responsible for wage differential between different occupations in an economy.
(4 marks)
(Total: 20 marks)

QUESTION FIVE

(a) The following data relates to a firm in the short-run.

Quantity Units	Total Cost Sh.
0	100
15	550
25	830
35	1,080
45	1,300
55	1,600
65	2,100
75	2,800
85	3,700
95	4,800
100	6,100

Required:

(i) Calculate the average fixed cost and average variable cost when the firm produces 65 units. (4 marks)

(ii) Plot the marginal cost curve. (8 marks)

(b) Summarise **FOUR** reasons why it is necessary to measure the national income of a country. (8 marks)
(Total: 20 marks)

QUESTION SIX

(a) With reference to Keynesian theory of money, explain **THREE** motives for people holding wealth in form of money. (6 marks)

(b) (i) Explain the term "currency devaluation". (2 marks)

(ii) State **THREE** advantages of currency devaluation. (3 marks)

(c) With the aid of a well labelled diagram, distinguish between "shift in supply" and "movement along the supply curve". (4 marks)

(d) Outline **FIVE** obstacles that hinder economic development in developing countries. (5 marks)
(Total: 20 marks)

QUESTION SEVEN

(a)   (i)   Explain the concept of unemployment as used in economics.   (2 marks)

       (ii)   State **SIX** measures that could be adopted by developing countries to reduce unemployment.   (6 marks)

(b)   Outline **FIVE** roles of the central bank in an economy.   (5 marks)

(c)   Identify **SEVEN** factors that limit economic planning in developing countries.   (7 marks)

                                                                                    (Total: 20 marks)

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ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 5 December 2022. Morning Paper.   **Time Allowed: 3 hours.**

Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

QUESTION ONE

(a)   Define the term "giffen goods" as used in economics.   (2 marks)

(b)   Outline **SIX** assumptions of the production possibility frontier.   (6 marks)

(c)   Explain **THREE** limitations of macroeconomics theory.   (6 marks)

(d)   State **SIX** effects of price fluctuations in the agricultural sector in an economy.   (6 marks)
                  (Total: 20 marks)

QUESTION TWO

(a)   (i)   State **FOUR** characteristics of a monopoly market structure.   (4 marks)

          (ii)   Using a well labelled diagram, illustrate the longrun equilibrium point of a firm operating in a monopoly
               market structure.   (6 marks)

(b)   Explain **FIVE** arguments in favour of enhancing the mobility of the factors of production.   (10 marks)
                  (Total: 20 marks)

QUESTION THREE

(a)   (i)   Define the term "spot exchange rate".   (2 marks)

          (ii)   Explain **FOUR** advantages of a managed floating exchange rate.   (8 marks)

(b)   The following represents the demand and supply functions for a commodity in a certain market:

     $Q - 4P = -5$
     $Q - 13 = -5P$

     Required:
     (i)   Determine the demand function and supply function.   (5 marks)

     (ii)   Determine the equilibrium price and equilibrium quantity.   (5 marks)
                  (Total: 20 marks)

QUESTION FOUR

(a)   State **FOUR** characteristics of a mixed economy.   (4 marks)

(b)   Suggest **SIX** determinants of labour supply in an economy.   (6 marks)

(c)   Discuss **FIVE** monetary policies used by central bank to control the amount of money in circulation in an
     economy.   (10 marks)
                  (Total: 20 marks)

QUESTION FIVE

(a)   Using a diagram, explain the law of decreasing return to scale.   (6 marks)

(b)   State **EIGHT** negative effects of inflation in an economy.   (8 marks)

(c)   With reference to national income, summarise **THREE** limitations of the multiplier.   (6 marks)
(Total: 20 marks)

QUESTION SIX

(a)   The economic transaction figures of Pwato Republic in thousands of shillings are as follows:

Sector	Total output	Intermediate purchases
Agricultural	56,000	33,000
Manufacturing	97,000	64,000
Service	72,000	46,000

Required:

(i)   Compute the Gross National Product of Pwato Republic, using the value added approach of National Income.   (2 marks)

(ii)   Calculate the Net Domestic Product at market prices and factor cost, if the indirect taxes and fixed assets depreciation is equal to 20,000 and 25,000 respectively.   (4 marks)

(b)   Suggest **SIX** policy measures that might be implemented by developing countries in order to accelerate their economic growth and development.   (6 marks)

(c)   State **FOUR** reasons why unemployment is a major policy issue in developing countries.   (4 marks)

(d)   Explain **FOUR** challenges facing small scale industries in developing countries.   (4 marks)
(Total: 20 marks)

QUESTION SEVEN

(a)   Using a diagram, show the indifference curves for complimentary and perfect substitute goods.   (6 marks)

(b)   Distinguish between "own price elasticity of demand" and "cross elasticity of demand".   (6 marks)

(c)   Explain **TWO** exceptions of the law of diminishing marginal utility.   (4 marks)

(d)   Outline **FOUR** factors that limit the effective implementation of fiscal policy in developing countries.   (4 marks)
(Total: 20 marks)

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ATD LEVEL III

PILOT PAPER

PRINCIPLES OF ECONOMICS

DECEMBER 2021.   **Time Allowed: 3 hours.**

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

QUESTION ONE
(a)   Explain the concept of "Scarcity, Choice and Opportunity cost as applied in economics.   (3 marks)

(b)   State and briefly explain four main factors that may cause a fall in the supply of a good in the market.   (4 marks)

(c)   Highlight the causes of increased cost of living in developing countries.   (5 marks)

(d)   With the aid of a well-labeled diagrams, distinguish between the effects of price floors and price ceilings.   (8 marks)
(Total: 20 marks)

QUESTION TWO
(a)   The data below represents the units consumed of a commodity at different income levels and price in the market:

Quantity	Income	Price
(Units)	(Sh.)	(Sh.)
100	5000	16
120	6000	16

Required
(i)   Compute income elasticity of demand through the arcelasticity method.   (2 marks)

(ii)   Discuss the applications of the concept of elasticity in business and economic policy decisions making.   (6 marks)

(b)   The following information relates to a firm in a certain market. A monopolist sells its output in two distinct markets with each market completely sealed off from each other.

The demand for the firms output in each market is given by the following equations:

P1=52-5Q1

P2=72-6Q2

The total cost function of the firm is given by the following function:

TC=50+12Q

Required:
(i) The firms' profit maximising level of output.   (6 marks)

(ii) Determine the corresponding prices.   (2 marks)

(iii) Outline the advantages of Price Discrimination.   (4 marks)

QUESTION THREE
(a)   (i)   Define an indifference curve.   (2 marks)

(ii)   Explain four applications of the indifference curve analysis.   (8 marks)

(b)   With the aid of a well labelled diagram distinguish between income and substitution effects of a price change.
     (i)   Case of a normal good.   (5 marks)
     (ii)   Case of an inferior good.   (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a)   (i)   Explain the law of variable proportions.   (2 marks)
     (ii)   Discuss the key assumptions to the law of variable proportions.   (6 marks)

(b)   With the aid of relevant diagrams demonstrate the short run equilibrium for a firm under perfect condition.   (12 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   (i)   Explain the concept of credit creation by commercial banks.   (2 marks)
     (ii)   Highlight the factors that limit the credit creation process by commercial banks.   (6 marks)

(b)   Explain the difference between "transfer earnings" and "economic rent" of a factor of production.   (2 marks)

(c)   Highlight some of the economic implications of a rising trend in the rural-urban migration and the possible remedy measures.   (8 marks)

(Total: 20 marks)

QUESTION SIX

(a)   The total cost equation in the production of bacon at some hypothetical factory is: $C = 1000 + 100Q - 15Q^2 + Q^3$.

Where C = Cost measured in shillings, while Q = quantity measured in kilogrammes.

    (i)   Compute the total cost and average total costs at output level of 10 and 11 kilogrammes.   (4 marks)
    (ii)   Determine the Marginal cost of the 12th Kilogramme.   4 marks)

(b)   Enumerate the differences between "monopoly" and "Monopolistic" competition.   (6 marks)

(c)   Explain the relationship between the Marginal Product (MP) and the Total Product (TP) curve.   (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Assume the following information represents the National Income Model of an 'Utopian'economy.
    $Y = C + I + G$
    $C = a + b(Y - T)$
    $T = d + tY$
    $I = IO$
    $G = GO$
    Where:
    $a > 0; 0 < b < 1$
    $d > 0; 0 < t < 1$
    T = Taxes
    I = Investment
    G = Government Expenditure

Required
    (i)   Explain the economic interpretation of the parameters a,b,d and t.   (4 marks)
    (ii)   Discuss the three approaches used in measuring the national income of a country and showwhy they give the same estimate.   (6 marks)

(b)   Outline the factors that could determine the level of national income of a country.   (6 marks)

(c)   With the aid of a well labeled diagram describe the relationship between the short run and long run average cost curve.   (4 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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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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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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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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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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ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 1 August 2022. Morning paper.   **Time Allowed: 3 hours.**

Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

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

(b)   State five advantages of a planned economic system.   (5 marks)

(c)   Identify six factors that determine the total market demand for a product.   (6 marks)

(d)   Describe five types of price elasticity of demand.   (5 marks)
                                                                        (Total: 20 marks)

QUESTION TWO
(a)   State the law of diminishing returns as applied in production functions.   (2 marks)

(b)   Illustrate and explain the three stages associated with the law of variable proportions.   (9 marks)

(c)   Using the Phillip's curve, explain the relationship between unemployment and inflation.   (5 marks)

(d)   Outline four factors that could lead to an increase in the cost of production in a firm.   (4 marks)
                                                                        (Total: 20 marks)

QUESTION THREE
(a)   Excel products limited deals in the production of a product branded "Excellent".
      The Average Revenue and Total Cost functions of "Excellent" are given by:

      $AR = 40 - 10x$
      $TC = X^3 + 2X^2 + 16X + 10$

      Where:

            AR = Average Revenue function (Sh. "millions")
            TC = Total Cost function (Sh. "millions")
            X = Number of units of "Excellent" produced and sold.

      Required:
      (i)   The total profit function.   (4 marks)

      (ii)   The maximum profit.   (6 marks)

(b)   Explain six reasons why existence of monopolies is beneficial to an economy.   (6 marks)

(c)   State four disadvantages of currency devaluation.   (4 marks)
                                                                        (Total: 20 marks)

QUESTION FOUR

(a)   Distinguish between "Gross Domestic Product" (GDP) and "Gross National Product" (GNP).   (4 marks)

(b)   Summarise five assumptions of the circular flow of income model.   (5 marks)

(c)   Identify seven factors that influence the size of a country's national income.   (7 marks)

(d)   State four problems associated with the income approach of Measuring National Income.   (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Differentiate between "normal wages" and "real wages".   (4 marks)

(b)   Explain three tools of monetary policy used to control money supply in an economy.   (6 marks)

(c)   Describe four conditions necessary for consumer rationality.   (4 marks)

(d)   Summarise six benefits of adopting a labour intensive technique of production in developing countries.   (6 marks)

(Total: 20 marks)

QUESTION SIX

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

(b)   Explain four functions of commercial banks in an economy.   (4 marks)

(c)   Outline four reasons why payment of interest to providers of loanable funds is justified.   (4 marks)

(d)   Discuss three criticisms levelled against the classical theory of interest rate determination.   (6 marks)

(Total: 20 marks)

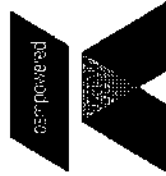**QUESTION SEVEN**

(a)   Identify four economic implications of high rate of rural to urban migration in developing countries.   (4 marks)

(b)   Summarise six arguments against reliance on external donor funding for a country.   (6 marks)

(c)   Outline five factors that contribute to underutilisation of resources in developing countries.   (5 marks)

(d)   The following information relates to the consumption of a commodity Q in a certain market.

Price of Q (Ksh.)	Quantity demanded of Q (Units)
5	800
10	750
15	700
20	650
25	600
30	550
35	500
40	450

Required:

(i)   Determine the arc price elasticity of demand as price changes from Sh.25 to Sh.30.   (3 marks)

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

(Total: 20 marks)

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MONDAY: 4 April 2022. Morning paper.   Time Allowed: 3 hours.

Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.

QUESTION ONE

(a)   Explain the inductive method of economic analysis.   (2 marks)

(b)   Identify five characteristics of public goods.   (5 marks)

(c)   Outline four uses of the production possibility frontier.   (4 marks)

(d)   Distinguish between "division of labour" and "specialisation of labour".   (4 marks)

(e)   Summarise five disadvantages of a mixed economic system.   (5 marks)
     (Total: 20 marks)

QUESTION TWO

(a)   The demand function of a firm is given as:

         $P = 115 - 63Q$

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

Required:

     (i)   Derive the average revenue function.   (2 marks)

     (ii)   Calculate the price elasticity of demand given that the price is Sh.3.   (3 marks)

(b)   Explain five features of an oligopolistic market structure.   (5 marks)

(c)   State five characteristics of human wants.   (5 marks)

(d)   Outline five demerits of a monetary economy.   (5 marks)
     (Total: 20 marks)

QUESTION THREE

(a)   Explain four types of money market instruments used in an economy.   (8 marks)

(b)   Outline four factors that contribute to the slow growth of capital markets in developing countries.   (4 marks)

(c)   Discuss factors that influence business investment in a country.   (8 marks)
     (Total: 20 marks)

QUESTION FOUR

(a)   Using a well labelled diagram, explain the shortrun profit maximising point for a firm operating in a perfect competition market.   (6 marks)

(b)   Define the following terms as used in the theory of cost:

     (i)   Opportunity cost.   (2 marks)

     (ii)   Explicit cost.   (2 marks)

     (iii)   Implicit cost.   (2 marks)

(c)   State four reasons why the demand curve is negatively sloped.   (4 marks)

(d)   Identify four reasons why the government might interfere with the price mechanism in an economy.   (4 marks)
                                                                                                      (Total: 20 marks)

QUESTION FIVE

(a)   Identify six measures that may be adopted to alleviate poverty in developing countries.   (6 marks)

(b)   Explain six disadvantages of adopting export-promotion strategy in developing countries.   (6 marks)

(c)   (i)   Define the term "credit inflation".   (2 marks)

        (ii)   Enumerate six causes of demand-pull inflation.   (6 marks)
                                                                                                      (Total: 20 marks)

QUESTION SIX

(a)   Describe three methods of measuring national income.   (6 marks)

(b)   The following data relates to the national income of Country X in billions of Shillings:

        G   = 1,000
        I   = 700
        C   = 62 + 0.8Y^d
        T   = 10 + 0.2Y
        X   = 40
        M   = 70 + 0.1Y

        Where: G   = Government expenditure
                I   = Investment
                C   = Consumption expenditure
                T   = Taxes
                X   = Exports
                M   = Imports
                Y^d = Disposable income (Y-T)

        Required:
        (i)   The equilibrium consumption level of national income.   (3 marks)

        (ii)   The equilibrium national income.   (4 marks)

        (iii)   The marginal propensity to save.   (3 marks)

(c)   With reference to the theory of production, list four factors that influence a production function. (4 marks)
                                                                                                      (Total: 20 marks)

QUESTION SEVEN

(a)   Explain five conditions that must hold for devaluation of a currency to be effective in developing countries.
                                                                                                           (5 marks)

(b)   Describe six applications of indifference curve analysis in economics.   (6 marks)

(c)   Explain five effects of unemployment in developing countries.   (5 marks)

(d)   Outline four assumptions of the marginal productivity theory of wage determination.   (4 marks)
                                                                                                      (Total: 20 marks)

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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 4th, 6th and 10th 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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