CPA FOUNDATION LEVEL

CIFA FOUNDATION LEVEL

ECONOMICS

TUESDAY: 5 December 2023. Afternoon 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) (i) Explain the term "economic planning".   (2 marks)

(ii) Argue **FOUR** cases in favour of government investment in the process of economic planning. (4 marks)

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

(c) Describe **FOUR** characteristics of a perfectly competitive market.   (4 marks)

(d) Explain **FIVE** causes of rising foreign debt in least developed countries.   (5 marks)
                                                                            (Total: 20 marks)

QUESTION TWO
(a) Highlight **SIX** causes of deficits in the balance of payment.   (6 marks)

(b) With the aid of a well labelled diagram, illustrate the substitution and income effect of:

(i) Inferior good.   (5 marks)

(ii) Normal good.   (5 marks)

(c) State **FOUR** product pricing strategies.   (4 marks)
                                                                            (Total: 20 marks)

QUESTION THREE
(a) Discuss **FOUR** sets of economic reforms that the Bretton Woods financial institution may impose on a country.
                                                                                           (8 marks)

(b) Describe **SIX** roles of industry in economic development of the least developed countries.   (6 marks)

(c) Outline **FIVE** reasons why urban unemployment is a major policy issue in developing countries.   (6 marks)
                                                                            (Total: 20 marks)

QUESTION FOUR
(a) (i) Explain the term "optimal size of the firm".   (2 marks)

(ii) List **SIX** factors that determine the cost behaviour of a firm.   (6 marks)

(b) (i) Differentiate between an "Engel curve" and "Income consumption curve" as used in consumer behaviour analysis.   (4 marks)

(ii) Using a well labelled diagram, derive the Engel Curve for a normal good using the indifference curve analysis.   (8 marks)
                                                                            (Total: 20 marks)

QUESTION FIVE

(a)   Explain **FOUR** assumptions of the law of demand. (8 marks)

(b)   The demand function for a certain commodity is given as follows:

$$Q = 110 - 3P + \frac{75}{2P^2}$$

Where;   Q   =   Quantity demanded
             P   =   Price

Required:

(i)   Point price elasticity of demand when the price is Sh.15. (4 marks)

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

(c)   Outline **SIX** demerits of delocalisation of industries. (6 marks)

(Total: 20 marks)

QUESTION SIX

(a)   Describe **THREE** steps involved in the scientific method of studying economics. (6 marks)

(b)   Explain the term "dead weight loss" as used in economics. (3 marks)

(c)   With the aid of a diagram, explain why the marginal revenue curve lies below the average revenue curve under monopoly. (5 marks)

(d)   Summarise **SIX** factors that may determine wages and salaries in an economy. (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   State **FOUR** factors that could influence the price of land as a factor of production. (4 marks)

(b)   A consumer has a fixed income of Sh.12,000 which must be spent entirely on bread and alcohol. The price per unit of bread is Sh.50 while the price per unit of alcohol is Sh.200.

Required:

(i)   Determine the marginal rate of substitution of alcohol for bread. (2 marks)

(ii)   Suppose the level of consumer's income is subjected to a housing levy of 1.5% while the price per unit of bread and the price per unit of alcohol increases by 10%, determine the marginal rate of substitution of bread for alcohol. (2 marks)

(c)   Using an appropriate diagram, explain how a fiscal policy may be used to control a deflationary gap in an economy. (6 marks)

(d)   With the help of a well-labelled diagram, explain the relationship between the "long-run average cost curve" and the "short-run average cost curve". (6 marks)

(Total: 20 marks)

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ECONOMICS

TUESDAY: 22 August 2023. Afternoon Paper.　　　　　　　　　　　　**Time Allowed: 3 hours.**

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

QUESTION ONE
(a)　State **FIVE** advantages of a planned economy.　　　　　　　　　　　　　　　(5 marks)

(b)　Explain **FOUR** types of unemployment.　　　　　　　　　　　　　　　　　(8 marks)

(c)　Distinguish between "merit goods" and "public goods".　　　　　　　　　　　(4 marks)

(d)　State **THREE** determinants of economic development.　　　　　　　　　　　(3 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION TWO
(a)　Outline **FIVE** challenges that economic planners are likely to encounter when using the income approach to estimate the level of national income in least developed countries.　　　　　(5 marks)

(b)　(i)　Explain the term "credit creation".　　　　　　　　　　　　　　　　(2 marks)

　　　(ii)　Describe **THREE** factors that limit the effectiveness of credit creation by commercial banks in your country.　　　　　　　　　　　　　　　　　　　　　　　　　　　　(6 marks)

(c)　Using a well labelled diagram, illustrate the shutdown point of a firm operating under perfect competition.
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(7 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION THREE
(a)　(i)　Explain the term "wage control".　　　　　　　　　　　　　　　　(2 marks)

　　　(ii)　Summarise **FIVE** consequences of wage control by the government in your country.　(5 marks)

(b)　Enumerate **FIVE** economies of scale that may be enjoyed by a manufacturing firm.　(5 marks)

(c)　Describe **FOUR** ways in which a government might restrict international trade.　　(8 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION FOUR
(a)　With the aid of a diagram, explain the marginal efficiency of capital.　　　　　(5 marks)

(b)　The demand and total cost function of a firm operating under perfect competition are given as:

P　=　45 – 4Q
TC　=　44 + 15Q

Where;
　　　P represents price
　　　Q represents quantity
　　　TC represents total cost

Required:

(i)   Determine the sufficient condition for profit maximisation of the firm.   (3 marks)

(ii)   Determine the firm's price for profit maximisation.   (2 marks)

(c)   Identify **FIVE** factors that limit the application of the accelerator principle in an economy.   (5 marks)

(d)   Enumerate **FIVE** roles of trade unions in an economy.   (5 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   The following information relates to a hypothetical economy:

Autonomous consumption   = 8000
Marginal propensity to save (MPS) = 0.45

Required:

(i)   Derive the savings function.   (3 marks)

(ii)   If the level of government expenditure increases by 250%, determine the change in equilibrium level of national income.   (2 marks)

(b)   Outline **FIVE** advantages of trade liberalisation to traders.   (5 marks)

(c)   Examine **THREE** factors that influence the elasticity of supply.   (6 marks)

(d)   Identify **FOUR** objectives of fiscal policies.   (4 marks)

(Total: 20 marks)

QUESTION SIX

(a)   (i)   Explain the term "Structural Adjustment Programmes" (SAPs).   (2 marks)

     (ii)   Discuss **THREE** criticisms of SAPs in least developed countries.   (6 marks)

(b)   Analyse **FOUR** challenges that may be encountered by an economy when transitioning from a planned economy to a free enterprise system.   (4 marks)

(c)   (i)   Explain the term "legal tender".   (2 marks)

     (ii)   With the aid of a diagram, explain the concept of liquidity trap.   (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Using an appropriate diagram in each case, explain the four properties of isoquants.   (8 marks)

(b)   Analyse **THREE** benefits of elasticity of demand in economic decision making.   (6 marks)

(c)   Describe **SIX** arguments in favour of regional integration in relation to international trade.   (6 marks)

(Total: 20 marks)

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ECONOMICS

TUESDAY: 25 April 2023. Afternoon Paper.   **Time Allowed: 3 hours.**

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

QUESTION ONE
(a)   Identify **SIX** conditions necessary for price discrimination under monopoly.   (6 marks)

(b)   Enumerate **FIVE** benefits of studying economics.   (5 marks)

(c)   List **FIVE** measures that may be adopted to correct income inequalities in developing countries.   (5 marks)

(d)   Highlight **FOUR** assumptions of indifference curve analysis.   (4 marks)
                    (Total: 20 marks)

QUESTION TWO
(a)   (i)   Explain the term "Gini Coefficient" as used in economics.   (2 marks)

        (ii)   Describe **THREE** principles of the Gini Coefficient.   (6 marks)

(b)   State **SEVEN** roles of the World Bank Group to a member state.   (7 marks)

(c)   With the aid of a diagram, explain regressive supply curve.   (5 marks)
                    (Total: 20 marks)

QUESTION THREE
(a)   Describe **FOUR** factors that determine the supply of money in an economy.   (8 marks)

(b)   Identify **FIVE** tax measures that a government could adopt to spur growth in the agricultural sector.   (5 marks)

(c)   Outline **SEVEN** demerits of inflation targeting.   (7 marks)
                    (Total: 20 marks)

QUESTION FOUR
(a)   The commodity and money markets for a certain economy is given by the following functions:

        Commodity market

        C   =   400 + 0.45y
        I   =   1700 + 18r

        Money market

        M_S =   1600
        M_{DT} =   0.25y
        M_{DS} =   800 – 12r

Required:

(i)   Derive the IS function.   (3 marks)

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

(iii)   Determine the equilibrium rate of interest.   (2 marks)

(iv)   Determine the equilibrium level of national income.   (2 marks)

(b)   Explain the following types of multipliers as used in economics:

(i)   Investment multiplier.   (2 marks)

(ii)   Government multiplier.   (2 marks)

(iii)   Export multiplier.   (2 marks)

(iv)   Consumption multiplier.   (2 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Most developing countries are faced with a problem of high external debts.

As an economist, outline **EIGHT** policy measures that the developing countries could put in place to minimise the problem of rising external debt.   (8 marks)

(b)   With the aid of a well labelled diagram, explain the law of diminishing marginal utility.   (6 marks)

(c)   Enumerate **SIX** factors that influence the cost behaviour of a manufacturing firm.   (6 marks)

(Total: 20 marks)

QUESTION SIX

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

Quantity	Price (Sh.)	Income (Sh.)
1,200	160	60,000
1,000	180	40,000

Required:

(i)   Determine price elasticity of commodity X and interpret your answer.   (3 marks)

(ii)   Determine income elasticity of commodity X and interpret your answer.   (3 marks)

(b)   Identify **SIX** advantages of economic integration to the member states.   (6 marks)

(c)   Explain **FOUR** negative effects of increased government spending on economic growth.   (8 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   (i)   Differentiate between a "stable equilibrium" and an "unstable equilibrium".   (4 marks)

(ii)   With the aid of a well labelled diagram, illustrate an unstable equilibrium.   (4 marks)

(b)   Identify **SIX** criticisms of the marginal productivity theory of wage determination.   (6 marks)

(c)   List **SIX** reasons why mobility of factors of production is important.   (6 marks)

(Total: 20 marks)

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ECONOMICS

TUESDAY: 6 December 2022. Afternoon Paper.   **Time Allowed: 3 hours.**

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

QUESTION ONE

(a)   Enumerate **FIVE** functions of the World Trade Organisation (WTO).   (5 marks)

(b)   Describe **THREE** ways that banks create credit.   (6 marks)

(c)   List **FOUR** characteristics of economic resources.   (4 marks)

(d)   Outline **FIVE** ways in which a government could interfere with the price mechanism.   (5 marks)
                    (Total: 20 marks)

QUESTION TWO

(a)   List **FOUR** components of disposable national income.   (4 marks)

(b)   Explain **SIX** problems that an economist could encounter when comparing welfare between different countries.
                    (6 marks)

(c)   Outline **FIVE** factors that determine the level of demand in an economy.   (5 marks)

(d)   Identify **FIVE** reasons why unemployment is a major policy issue in developing countries.   (5 marks)
                    (Total: 20 marks)

QUESTION THREE

(a)   Enumerate **FIVE** factors that could limit consumer sovereignty.   (5 marks)

(b)   With the aid of a well labelled diagram, explain the **THREE** stages of production according to the law of diminishing marginal returns.   (9 marks)

(c)   Explain **THREE** limitations of the consumer price index.   (6 marks)
                    (Total: 20 marks)

QUESTION FOUR

(a)   Using a well labelled diagram, distinguish between "price floor" and "price ceiling".   (8 marks)

(b)   Explain **THREE** factors that influence the level of interest rates in an economy.   (6 marks)

(c)   State **SIX** policy measures that a country could adopt to avoid the risk of not being able to honour her foreign debts.   (6 marks)
                    (Total: 20 marks)

QUESTION FIVE

(a)   Explain the following types of inflation:

        (i)   Cost push.   (2 marks)

        (ii)   Credit.   (2 marks)

        (iii)   Demand pull.   (2 marks)

(b)   State **SIX** policy measures that could be adopted by developing countries to encourage industrial development.
                    (6 marks)

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                    Out of 2

(c) Enumerate **FOUR** factors that could determine the effectiveness of trade unions.   (4 marks)

(d) Outline **FOUR** features of isoquant curves.   (4 marks)
(Total: 20 marks)

QUESTION SIX

(a) Outline **FOUR** disadvantages of a controlled market system.   (4 marks)

(b) The demand and total cost function for a certain firm are represented as follows:

$$P = 400 - 4q$$
$$TC = q^2 + 10q + 30$$

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

Required:

(i)   The marginal cost function.   (2 marks)

(ii)   The marginal revenue function.   (2 marks)

(iii) The average variable cost function.   (2 marks)

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

(v)   The maximum profit.   (2 marks)

(c) Discuss **THREE** motives of holding money as advanced by the Keynesian liquidity preference theory.   (6 marks)
(Total: 20 marks)

QUESTION SEVEN

(a) Outline **SIX** characteristics of a good economic development plan.   (6 marks)

(b) The following data relates to the national income of a certain country in billions of shillings:

C   = $500 + 0.6Y^d$
I   =   350
G   =   250
T   =   200
X - M = $280 - 0.1Y$

Where:
G = Government expenditure
C = Consumption
I   = Investment
T = Taxes
X = Exports
M = Imports
Y = National income

Required:

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

(ii)   The equilibrium level of consumption expenditure.   (3 marks)

(iii) The multiplier.   (2 marks)

(c) (i)   Explain the law of variable proportions.   (2 marks)

(ii)   Enumerate **FOUR** assumptions underlying the law of variable proportions.   (4 marks)
(Total: 20 marks)

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ECONOMICS

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

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

QUESTION ONE
(a)   (i)   Explain the concept of "consumer sovereignty" as applied in economic analysis.   (2 marks)

        (ii)   Highlight five factors that limit consumer sovereignty.   (5 marks)

        (iii)   ABC limited has been incurring losses over the last few years despite its monopolparastatal status.

                Using a well-illustrated diagram, demonstrate how a monopolist can make losses in the short-run.
                                                                                                                                         (5 marks)

(b)   Discuss the four main goals of macroeconomic policy in developing countries.   (8 marks)
                                                                                                                              (Total: 20 marks)

QUESTION TWO
(a)   Highlight the characteristics of public goods.   (5 marks)

(b)   The following economic functions have been derived from the Kenya Coffee Millers Limited:

        $Qa = 3p^2 – 4p$ and
        $Qb = 24 – p^2$; where p represents price and Q is quantity

        Required:
        (i)   Which of the two functions represents a demand curve and supply curve. Cite relevant economic reasons.
                                                                                                                                         (4 marks)

        (ii)   Determine the equilibrium price and quantity in the market   (6 marks)

        (iii)   Explain, with the aid of a diagram, the effect on the demand and supply functions indicated in (a)above of a simultaneous decrease in cost of inputs and a decrease in the price of a substitute good.   (5 marks)
                                                                                                                              (Total: 20 marks)

QUESTION THREE
(a)   Explain the term 'Price control'.   (4 marks)

(b)   Explain the circumstances under which price control is considered necessary.   (5 marks)

        The utility total function and other relevant variables related to a consumer are given as follows:

        $U = 20X - 4Z^2 + 40Z - X^2$
        Income $Y =$ Kshs. 48
        Price of X $(Px) =$ Kshs.2
        Price of Z $(Pz) =$ Kshs.4

        Required:
        (i)   Determine the equilibrium quantities of commodities x and z using the cardinalist approach to consumer behavior.   (6 marks)

        (ii)   Outline the axioms of the cadinalist approach to consumer behavior.   (5 marks)
                                                                                                                              (Total: 20 marks)

QUESTION FOUR

(a)   Explain the importance of elasticity of supply in decision making.   (6 marks)

(b)   Examine five factors that limit the effectiveness of the monetary policies in developing countries.   (5 marks)

(c)   You are given the following information about the commodity and Money markets of a closed economy without government intervention:

The commodity market Consumption function:
C = 50 + 2/5Y

Investment function:
I = 790 – 21r

The Money Market:
Precautionary and Transactions demand for money MDT = 1/6 Y

Speculative demand for money MDS = 1200 -18r

Money supply MS = 1250

Required:

(i)   Determine the equilibrium levels of income and interest rate for this economy.   (6 marks)

(ii)   Using a well labeled diagram, illustrate the equilibrium condition in part (i) above.   (3 marks)
(Total: 20 marks)

QUESTION FIVE

(a)   Explain the meaning of mobility of factors of production and highlight the significance of factor mobility.
(6 marks)

(b)   Outline the economic policy recommendations that would reduce regional development imbalances developing countries.   (6 marks)

The table below represents economic transactions for country XYZ in billions of shillings:

	Total output	Intermediate purchases
Agriculture	130	110
Manufacturing	170	145
Services	155	125

Required:

(i)   Calculate the Gross National Product of this economy using the value added approach.   (4 marks)

(ii)   If depreciation and indirect taxes equal 8 billion and 7 billion shillings respectively, find the Net Domestic Product both at Market prices and at factor cost.   (4 marks)
(Total: 20 marks)

QUESTION SIX

(a)   Explain the term 'Oligopoly'?   (2 marks)

(b)   Analyse the challenges facing the formation of "cartels" in the oligopoly market structure.   (8 marks)

(c)   Citing reasons, suggest why rising inflation is a major cause of concern in developing countries.   (10 marks)
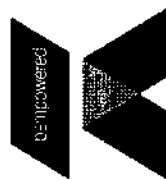**(Total: 20 marks)**

QUESTION SEVEN

(a)   Outline the main causes for the rise in the unemployment levels in developing countries.   (5 marks)

(b)   Suggest the possible remedy measures to contain unemployment crisis in developing countries.   (7 marks)

(c)   Explain the likely challenges facing currency demonetization in your country.   (8 marks)
(Total: 20 marks)

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ECONOMICS

TUESDAY: 5 April 2022. Afternoon paper.   Time Allowed: 3 hours.

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

QUESTION ONE
(a)   Discuss five challenges encountered by planned economic system in their transition to market oriented economies.
                                                                       (10 marks)

(b)   Explain three exceptions to the law of demand.   (6 marks)

(c)   Outline four determinants of the elasticity of supply.   (4 marks)
                                                                    (Total: 20 marks)

QUESTION TWO
(a)   With the aid of appropriate diagrams, describe three properties of indifference curves.   (9 marks)

(b)   With reference to the theory of consumer behaviour, highlight five assumptions of maximisation of utility. (5 marks)

(c)   Examine three applications of the concept of consumer surplus in economies.   (6 marks)
                                                                    (Total: 20 marks)

QUESTION THREE
(a)   (i)   Explain four assumptions underlying the theory of imperfect competition.   (8 marks)

       (ii)   With an aid of a diagram, explain the long run equilibrium of a firm operating in imperfect competition.
                                                                       (6 marks)

(b)   Explain six factors that influence the mobility of labour as a factor of production.   (6 marks)
                                                                    (Total: 20 marks)

QUESTION FOUR
(a)   Assess five forms of economic integration as used in international trade.   (10 marks)

(b)   The table below shows the total variable cost of a firm at different production levels:

Level of output	Total variable cost Sh.
0	0
1	60,000
2	110,000
3	140,000
4	150,000
5	150,000
6	170,000
7	210,000
8	260,000

The total fixed cost of the company is Sh.150,000.

Required:
(i)   The average cost of production for each output level.   (4 marks)

(ii)   The marginal cost of production for each output level.   (4 marks)

(iii)   The profit maximising level of output.   (2 marks)
                                                                    (Total: 20 marks)

QUESTION FIVE

(a) The following table shows the level of National income (Y), Consumption (C), Investment (I), Government Spending (G), Exports (X) and Imports (M) of an utopian country for the years 2020 and 2021:

Year	Y	C	I	G	X	M
	$	$	$	$	$	$
2020	80,000	?	10,000	40,000	100,000	120,000
2021	90,000	56,000	15,000	34,000	110,000	?

Required:
Compute the following:

    (i)   The level of consumption in the year 2020.   (3 marks)

    (ii)   The marginal propensity to consume.   (2 marks)

    (iii)   The level of imports for the year 2021.   (3 marks)

    (iv)   The marginal propensity to import.   (2 marks)

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

    (ii)   Enumerate four limitations of using per capita income as a measure of welfare.   (4 marks)

(c)   Highlight four factors that limit the effectiveness of the multiplier in developing countries.   (4 marks)
    (Total: 20 marks)

QUESTION SIX

(a)   (i)   Describe three economic characteristics of enterprise as a factor of production.   (6 marks)

    (ii)   Explain four importance of profits in a market economy.   (4 marks)

(b)   Summarise four impacts of expansionary monetary policy in an economy.   (4 marks)

(c)   Citing real life examples, distinguish between the following types of unemployment:

    (i)   "Seasonal unemployment" and "casual unemployment".   (3 marks)

    (ii)   "Disguised unemployment" and "unproductive unemployment".   (3 marks)
    (Total: 20 marks)

QUESTION SEVEN

(a)   (i)   With reference to economic growth and development, explain the term "potential growth".   (2 marks)

    (ii)   Examine six benefits of economic growth and development.   (6 marks)

(b)   Summarise six demerits of minimum wage legislation in an economy.   (6 marks)

(c)   Identify six strategies that the government may adopt to promote the informal sector in developing countries.
      (6 marks)
    (Total: 20 marks)

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CPA FOUNDATION LEVEL

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ECONOMICS

THURSDAY: 16 December 2021.   **Time Allowed: 3 hours.**

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

QUESTION ONE

(a)   Using a suitable example, explain the term "composite supply".   (2 marks)

(b)   Summarise five factors that cause persistent market disequilibrium in an economy.   (5 marks)

(c)   Highlight six reasons why the demand of a commodity might not increase following a decrease in the price of the commodity.   (6 marks)

(d)   Outline seven advantages of a free market economic system.   (7 marks)
(Total: 20 marks)

QUESTION TWO

(a)   Examine six features of capital as a factor of production.   (6 marks)

(b)   Using indifference curve analysis, derive the engel curve of a normal good.   (8 marks)

(c)   State six conditions that are necessary for effective price discrimination by a monopolist.   (6 marks)
(Total: 20 marks)

QUESTION THREE

(a)   Summarise four effects of expansionary fiscal policy in an economy.   (4 marks)

(b)   Describe six qualities of money as a medium of exchange.   (6 marks)

(c)   Discuss five technical economies of scale.   (10 marks)
(Total: 20 marks)

QUESTION FOUR

(a)   Citing an example, explain the term "hidden unemployment".   (2 marks)

(b)   Outline five factors that determine the economic development of a country.   (5 marks)

(c)   The marginal cost function of a certain firm is given by:

          MC = 6Q + 4
          Where = MC is the marginal cost function
                    Q is the level of output

Required:

(i)   The total cost function.   (2 marks)

(ii)   The average fixed cost function.   (2 marks)

(iii)   The average variable cost function.   (2 marks)

(iv)   The level of output that would minimise the average variable cost.   (3 marks)

(v)   The level of output that would minimise the average total cost.   (4 marks)
(Total: 20 marks)

QUESTION FIVE

(a)   Highlight five advantages of using a free exchange rate system in an economy.   (5 marks)

(b)   Enumerate seven criticisms levelled against the theory of comparative advantage.   (7 marks)

(c)   Explain four limitations of the loanable funds theory of interest rates.   (8 marks)
(Total: 20 marks)

QUESTION SIX

(a)   Discuss five differences between monopoly and monopolistic market structures.   (10 marks)

(b)   The following data relate to the nominal and real gross national product (GNP) levels for a hypothetical economy for the years 2011 and 2019:

Year	Nominal GNP "Sh.billion"	Real GNP "Sh.billion"
2011	1,185.90	1,185.90
2019	2,633.00	1,474.00

Required:

(i)   The implicit GNP price deflator for the years 2011 and 2019. Interpret your results.   (5 marks)

(ii)   The inflation rate of the economy, using year 2011 as the base year.   (5 marks)
(Total: 20 marks)

QUESTION SEVEN

(a)   (i)   Define the term "inflation targeting".   (1 mark)

       (ii)   State four disadvantages of inflation targeting in a country.   (4 marks)

(b)   Explain four causes of a demand-pull inflation in an economy.   (8 marks)

(c)   Outline seven limitations of regional economic integration in developing countries.   (7 marks)
(Total: 20 marks)

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ECONOMICS

TUESDAY: 2 August 2022. Afternoon 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 five demerits of trade liberalisation in an economy.   (5 marks)

(b)   Explain five reasons why income inequalities are a major policy issue in developing countries.   (10 marks)

(c)   Highlight five factors that determine the transactionary and precautionary demand for money.   (5 marks)
                                                          (Total: 20 marks)

QUESTION TWO
(a)   Identify five requirements for proper economic planning.   (5 marks)

(b)   Discuss five criticisms of the liquidity preference theory.   (10 marks)

(c)   Examine five disadvantages of trade unions in an economy.   (5 marks)
                                                           (Total: 20 marks)

QUESTION THREE
(a)   Evaluate five causes of market failure in an economy.   (10 marks)

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

(c)   Assess four ways in which inflation affects the functions of money.   (8 marks)
                                                           (Total: 20 marks)

QUESTION FOUR
(a)   Explain the following terms as used in elasticity analysis:

        (i)   Price elasticity of demand.   (2 marks)

        (ii)   Income elasticity of demand.   (2 marks)

        (iii)   Cross elasticity of demand.   (2 marks)

(b)   Explain four factors that influence the elasticity of demand.   (8 marks)

(c)   With the aid of a well labelled diagram, explain the production possibility Frontier (PPF).   (6 marks)
                                                           (Total: 20 marks)

QUESTION FIVE
(a)   (i)   Explain the term "indifference curve" as used in the theory of consumer behaviour.   (2 marks)

        (ii)   Outline six application of the indifference curve analysis.   (6 marks)

(b)   (i)   Explain the term "optimal size of the firm" as used in the theory of cost.   (2 marks)

        (ii)   Using a well labelled diagram, illustrate the optimal size of the firm.   (3 marks)

(c)　(i)　Explain the term "production function". (2 marks)

(ii)　Highlight five factors that influence the production function. (5 marks)
(Total: 20 marks)

QUESTION SIX
(a)　(i)　Outline five challenges faced by the agricultural sector in developing countries. (5 marks)

(ii)　Suggest five policy measures that should be put in place by developing countries to help improve the agricultural sector. (5 marks)

(b)　The data provided below represent the national income model of a certain economy in billions of shillings:

$$Y = C + I + G + (X - M)$$

C　=　$200 + 0.8Y^d$
T　=　$20 + 0.2Y$
I　=　70
G　=　50
X　=　40
M　=　60

Where:
Y　=　National income
C　=　Consumption expenditure
I　=　Investment
G　=　Government expenditure
Y^d　=　Disposable income
T　=　Taxes
X　=　Export
M　=　Import

Required:
The equilibrium level of:

(i)　National income. (5 marks)

(ii)　Consumption. (3 marks)

(iii)　Taxes. (2 marks)
(Total: 20 marks)

QUESTION SEVEN
(a)　Explain six roles played by foreign investment in least developed countries. (6 marks)

(b)　Highlight six policy measures that may be put in place to combat unemployment in developing countries. (6 marks)

(c)　A firm operating under perfect competition has the following demand and total cost functions:

P　=　$75 - 0.5Q$
TC　=　$80 + 20Q$

Where:
P　=　Price in shillings
TC　=　Total cost
Q　=　Quantity in units produced and sold

Required:
(i)　The level of output that would maximise profits. (5 marks)

(ii)　The maximum profit. (3 marks)
(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 31 August 2021. **Time Allowed: 3 hours.**

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

QUESTION ONE
(a) (i) Highlight four factors that determine the supply of a good or service. (4 marks)

(ii) Using appropriate diagrams, explain the difference between "a movement along a supply curve" and "a shift in a supply curve". (8 marks)

(b) Explain the following terms in relation to labour as a factor of production:
  (i) Participation rate. (2 marks)
  (ii) Real wages. (2 marks)
  (iii) Labour productivity. (2 marks)
  (iv) Derived demand. (2 marks)
  (Total: 20 marks)

QUESTION TWO
(a) Explain the term "marginal factor cost". (2 marks)

(b) The government has given a subsidy on the consumption of commodity Y.

Using a diagram for illustration, explain the effect of the above action on market equilibrium for commodity Y.
(5 marks)

(c) Justify five reasons why devaluation in developing countries tends to be inflationary. (5 marks)

(d) With the help of a well labelled diagram, distinguish between "economic rent" and "quasi rent". (6 marks)

(e) Using a suitable example, explain the term "transfer payments". (2 marks)
(Total: 20 marks)

QUESTION THREE
(a) Highlight six economic factors that may contribute to poor performance of the agricultural sector in developing countries. (6 marks)

(b) With the aid of an illustration, describe the circular flow of income for a closed economy with the existence of the government. (8 marks)

(c) Analyse three factors that may limit independence of the central bank in carrying out its mandate in an economy.
(6 marks)
(Total: 20 marks)

QUESTION FOUR

(a)   Identify three uses of consumer surplus.   (6 marks)

(b)   With the help of a diagram, explain the marginal efficiency of capital.   (5 marks)

(c)   Highlight five implications of a deflationary gap in an economy.   (5 marks)

(d)   Given the demand function:

Quantity $(Q) = 40 + 15Q - 2Q^2 + \dfrac{10}{Q}$

Required:

(i)   Point elasticity of demand
When;
Price (P)   =   10
Quantity (Q) =   75   (3 marks)

(ii)   Interpret your results.   (1 mark)

(Total: 20 marks)

QUESTION FIVE

(a)   Collusion may be a feature of an oligopolistic market.

With reference to the above statement, explain the term "collusion".   (2 marks)

(b)   Collusive practices may be undermined by price wars.

Assess three benefits that might accrue to consumers as a result of price wars by firms.   (6 marks)

(c)   You have been provided with the following data for country Z:

Gross national product at current market prices $400 million
Price subsidies $10 million
Depreciation $24 million
Indirect taxes $60 million

Required:
Determine the value of each of the following:

(i)   Gross national product at factor cost.   (3 marks)

(ii)   Net national product at factor cost.   (3 marks)

(d)   Discuss three roles played by the International Monetary Fund (IMF) in the world economy.   (6 marks)

(Total: 20 marks)

QUESTION SIX

(a)   (i)   Explain the term "price discrimination".   (2 marks)

(ii)   Using examples in each case, examine three types of price discrimination.   (9 marks)

(b)   Identify four effects of Covid-19 pandemic on the world economy.   (4 marks)

(c)   (i)   Define the term "free enterprise economic system."   (1 mark)

(ii)   Highlight four economic advantages of free enterprise economic system.   (4 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) (i) Explain the term "credit creation". (2 marks)

(ii) Evaluate four factors that limit the effectiveness of credit creation by commercial banks. (8 marks)

(b) The data below represents the national income of a certain economy in trillions of shillings:

$Y = C + I + G + (X - M)$

$C = 100 + 0.6Y^d$

$T = 10 + 0.2Y$

$I = 40$

$G = 50$

$(X - M) = 30$

Where: Y = National Income

C = Consumption expenditure

I = Investment

G = Government expenditure

Y^d = Disposable income

T = Taxes

X = Exports

M = Imports

Required:
The equilibrium level of:

(i) National income. (5 marks)

(ii) Consumption. (3 marks)

(iii) Taxes. (2 marks)

(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 18 May 2021.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE
(a)   Evaluate four ways in which the government could influence allocation of resources in a country.   (8 marks)

(b)   Explain using formulae, the difference between "arc elasticity" and "point elasticity" of demand.   (4 marks)

(c)   (i)   Define the term "Consumer Sovereignty" as used in economics.   (2 marks)

        (ii)   Summarise six limitations of consumer sovereignty in an economy.   (6 marks)

                                                                                (Total: 20 marks)

QUESTION TWO
(a)   Highlight the effects of removing interest rate capping in an economy.   (5 marks)

(b)   Identify four reasons why governments intervene with the operations of price mechanism.   (8 marks)

(c)   Outline seven factors that influence the elasticity of supply of a commodity.   (7 marks)

                                                                                (Total: 20 marks)

QUESTION THREE
(a)   Using indifference curve analysis, demonstrate how an individual's equilibrium point is attained.   (4 marks)

(b)   With particular interest on inferior goods, use the indifference curve analysis to demonstrate and explain the income and substitution effect of a fall in price.   (6 marks)

(c)   Kenya, which is currently ranked as a developing country, came up with an economic blueprint geared towards realising economic development by the year 2030.

        Required:
        (i)   Describe five factors that might hinder Kenya from realising the above objective.   (5 marks)

        (ii)   Outline measures that might be put in place in order to overcome the impediments in (c) (i) above. (5 marks)

                                                                                (Total: 20 marks)

QUESTION FOUR
(a)   Examine six causes of a deflationary gap in an economy.   (6 marks)

(b)   (i)   Define the term "monetary policy".   (2 marks)

        (ii)   Explain five objectives of monetary policy in an economy.   (5 marks)

(c)   Assess seven reasons why developing countries are concerned about the high rate of unemployment in their countries.   (7 marks)

                                                                                (Total: 20 marks)

QUESTION FIVE

(a)   The total cost and demand functions of a firm operating under monopolistic competition are represented as follows:

$$TC = 850 - 8Q + 10Q^2$$
$$P = 200$$

Where:

TC = Total costs
Q = Output
P = Price

Required:

(i)   Fixed cost function.   (1 mark)

(ii)   Variable cost function.   (1 mark)

(iii)   Average cost function.   (1 mark)

(iv)   Marginal cost function.   (2 marks)

(v)   Marginal revenue function.   (2 marks)

(vi)   The level of output at which the firm breaks-even.   (3 marks)

(b)   Examine five reasons for deteriorating terms of trade for developing countries.   (10 marks)
                                                                                                                              (Total: 20 marks)

QUESTION SIX

(a)   (i)   Describe the term "economic integration".   (2 marks)

        (ii)   Highlight six factors that limit successful economic integration in developing countries.   (6 marks)

(b)   Examine four advantages of currency devaluation to a country's economy.   (8 marks)

(c)   With the use of a diagram, illustrate the optimal point of a firm.   (4 marks)
                                                                                                                              (Total: 20 marks)

QUESTION SEVEN

(a)   Enumerate seven roles of commercial banks in an economy.   (7 marks)

(b)   (i)   With a well labelled diagram, illustrate the concept of economic rent.   (5 marks)

        (ii)   Explain how economic rent might be used as a good base for taxation.   (3 marks)

(c)   With the aid of a diagram distinguish between "actual economic growth" and "potential economic growth".
                                                                                                                              (5 marks)
                                                                                                                              (Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 24 November 2020.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE
(a)   Explain four methods used by the government to stabilise agricultural prices.   (4 marks)

(b)   Using suitable examples, differentiate between the following terms as used in economics:

        (i)   "Basic human wants" and "secondary human wants".   (4 marks)

        (ii)   "Public good" and "merit good".   (4 marks)

        (iii)   "Stable equilibrium" and unstable equilibrium".   (4 marks)

(c)   With the aid of a well labelled diagram, illustrate the effect of a simultaneous increase in the income of the consumer
        and increase in fuel prices.   (4 marks)

                                                                                              (Total: 20 marks)

QUESTION TWO
(a)   With the help of a diagram, discuss the concept of an individual engel curve as applied in the theory of consumer
        behaviour.   (5 marks)

(b)   Citing four examples, explain the significance of mobility of factors of production.   (8 marks)

(c)   A firm uses two factors of production, labour and capital in the long-run. The price per unit of labour is Sh.1,200 while
        the price per unit of capital is Sh.900. The firm has a budget of Sh.72,000 which it uses entirely on labour and capital to
        produce an output level of 500,000 tons.

        Required:
        (i)   With the help of a diagram, derive the optimal point of the firm.   (4 marks)

        (ii)   Determine the firm's marginal rate of technical substitution (MRTS).   (3 marks)
                                                                                              (Total: 20 marks)

QUESTION THREE
(a)   Examine three sources of monopoly power.   (6 marks)

(b)   With the aid of a well labelled diagram, explain the equilibrium level of a firm operating under monopolistic market
        structure in the long run.   (6 marks)

(c)   Assume that a producer has the possibility of discriminating between the domestic and foreign markets for a product with the demand functions given as follows:

$$Q_1 = 16 - 0.2\,P_1 \text{ (Domestic market)}$$

$$Q_2 = 90 - 0.5P_2 \text{ (Foreign market)}$$

Total Cost (TC) of production is given as:

$$TC = 50 + 20Q$$

Required:
Determine the level of output and price to be charged for:

(i)   Domestic market.   (4 marks)

(ii)   Foreign market.   (4 marks)
                                                                                              (Total: 20 marks)

QUESTION FOUR
(a)   A small hypothetical economy has the following information:

$$C = b_0 + b_1\,Y$$

$$I = I_0$$

$$G = G_0$$

$$T = \alpha_0 + \alpha_1\,Y$$

Where:

$$C = \text{Consumers expenditure}$$

$$I = \text{Private investment}$$

$$G = \text{Government spending}$$

$$T = \text{Taxes}$$

Required:
(i)   Determine the marginal propensity to save.   (2 marks)

(ii)   Derive the equilibrium level of income and taxes.   (6 marks)

(b)   Differentiate between "seasonal unemployment" and "frictional unemployment".   (4 marks)

(c)   Explain the term "economic planning".   (2 marks)

(d)   Highlight six characteristics of a good economic plan.   (6 marks)
                                                                                              (Total: 20 marks)

QUESTION FIVE
(a)   Enumerate four factors that determine the velocity of money in circulation.   (4 marks)

(b)   (i)   Explain the relationship between the multiplier and the accelerator.   (4 marks)

       (ii)   Evaluate four benefits that might accrue to an economy as a result of accelerator effect.   (8 marks)

(c)   Summarise four factors that might lead to an inward shift in the optimal point of a firm.   (4 marks)
                                                                                              (Total: 20 marks)

QUESTION SIX

(a)   Justify five reasons for differential interest rates in an economy.   (5 marks)

(b)   With the aid of a diagram, describe the concept of liquidity trap.   (4 marks)

(c)   Using suitable examples, provide three reasons for interest rate decontrol in an economy.   (6 marks)

(d)   Summarise five reasons that make it possible for commercial banks to create credit.   (5 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Summarise six corrective measures that developing countries should institute to correct the persistent deficits in their balance of payments position.   (6 marks)

(b)   Discuss four policy recommendations that developing countries should institute to reduce regional imbalances in their economies.   (8 marks)

(c)   Justify six reasons why external debt problems is a major policy issue in developing countries.   (6 marks)

(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

WEDNESDAY: 27 November 2019. **Time Allowed: 3 hours.**

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

QUESTION ONE
(a) Examine four limitations of a planned economic system. (4 marks)

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

(c) With the help of a diagram, illustrate the concept of surplus as applied in the theory of market equilibrium. (5 marks)

(d) The following equations are given:

$$Q = -10 + 6P \quad .... \quad \text{equation} \quad \text{(i)}$$
$$Q = 20 - 4P \quad .... \quad \text{equation} \quad \text{(ii)}$$

Required:
(i) Giving reasons, identify the demand function and the supply function. (2 marks)

(ii) Determine the equilibrium price and quantity. (4 marks)
(Total: 20 marks)

QUESTION TWO
(a) Evaluate three fundamental economic issues that a society has to address to minimise the problem of scarcity of resources. (6 marks)

(b) Explain five factors that lead to the external economies of scale in an economy. (10 marks)

(c) Describe two assumptions of the law of variable proportions. (4 marks)
(Total: 20 marks)

QUESTION THREE
(a) Highlight four assumptions of consumer rationality. (4 marks)

(b) With the aid of a well labelled diagram, explain the concept of a backward bending supply curve of labour. (6 marks)

(c) A firm operating under perfect competition observed that:

1. At a unit price of Sh.20 of product "R", 600 units were sold.
2. At an increased price of Sh.70, the sales of product "R" decreased by 500 units.
3. The relationship between the price of product "R" and the quantity sold of product "R" is linear.
4. The total cost (TC) of product "R" is given by the function:

$$TC = 0.9q^2 + 30q + 1,000$$

Where q is the quantity of product "R" produced and sold.

Required:

   (i)   The revenue function of product "R".   (4 marks)

   (ii)   The profit earned at equilibrium.   (4 marks)

   (iii)   The equilibrium price.   (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a)   The per capita income of a hypothetical country increased by 20% from the year 2015 to year 2018.

       Despite this increase in per capita income, the residents of the country felt that their living standards were deteriorating.

       Required:
       Discuss five reasons that might have led to this feeling by the residents.   (10 marks)

(b)   Describe three methods that could be used to measure the national income of a country.   (6 marks)

(c)   The following are the consumption and investment functions of country Y in Sh. "Billion".

           $C \;=\; 200 + 0.8Y$
           $I \;\;=\; 400$

       Where:
       C is Consumption
       Y is Income
       I is Investment

       Required:
       Calculate the aggregate spending at equilibrium level.   (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a)   Examine four benefits of a contractionary monetary policy to an economy.   (4 marks)

(b)   Explain six factors that determine the level of induced investments in an economy.   (6 marks)

(c)   The value of money varies inversely with the level of prices.

       With reference to the above statement, justify six positive economic effects of a prolonged fall in the value of money in an economy.   (6 marks)

(d)   With the aid of a well labelled diagram, explain the trade-off between inflation and unemployment level.   (4 marks)

(Total: 20 marks)

QUESTION SIX

(a)   Identify four reasons against international trade restrictions.   (8 marks)

(b)   Summarise four functions of World Trade Organisation (WTO).   (4 marks)

(c)   The citizens of your country have raised concern over the increased rate of Foreign Direct Investment in your country.

       Required:
       Assess four cases in favour of and four cases against Foreign Direct Investment in an economy.   (8 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Enumerate five causes of inequalities in the distribution of income and wealth in an economy.   (5 marks)

(b)   Explain five benefits of development planning in an economy.   (5 marks)

(c)   Distinguish between "depreciation of a currency" and "demonetisation of the currency".   (4 marks)

(d)   Highlight six possible effects of demonetisation of the currency.   (6 marks)

(Total: 20 marks)

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CPA PART 1 SECTION 2

CS PART 1 SECTION 2

CIFA PART 1 SECTION 2

CCP PART 1 SECTION 2

ECONOMICS

TUESDAY: 21 May 2019. **Time Allowed: 3 hours.**

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

QUESTION ONE

(a) (i) Explain the Keynesian liquidity preference theory of demand for money. (1 mark)

(ii) Outline five criticisms of the theory in (a) (i) above. (5 marks)

(b) (i) Distinguish between "perfect oligopoly" and "imperfect oligopoly". (2 marks)

(ii) Describe three methods used in fixing prices under the oligopoly market structure. (6 marks)

(c) Highlight six factors that might lead to a rightward shift of the optimal point of a firm. (6 marks)
(Total: 20 marks)

QUESTION TWO

(a) (i) Enumerate five characteristics of a free market economic system. (5 marks)

(ii) State five advantages of a free market economic system. (5 marks)

(b) Summarise five factors that could lead to a leftward shift of the supply curve of a commodity. (5 marks)

(c) The demand and average cost functions of a hypothetical firm are represented by the following functions (in thousands):

$$P = 50 - Q$$

$$AC = \frac{100}{Q} - 16 + 2Q$$

Where: P is the unit price in shillings.
Q is the quantity of output in units.
AC is the average cost in shillings.

Required:

(i) The total cost function. (1 mark)

(ii) The variable cost function. (1 mark)

(iii) The total profit of the firm when Q = 10 units. (3 marks)
(Total: 20 marks)

QUESTION THREE

(a)   (i)   Explain the difference between the "cardinal approach" and the "ordinal approach" to measuring utility.

                             (2 marks)

        (ii)   Outline four limitations of the cardinal approach to measuring utility.   (4 marks)

(b)   Highlight six factors that determine the effectiveness of trade unions in a society.   (6 marks)

(c)   Discuss four applications of elasticity of demand in economic decision making.   (8 marks)

                                     (Total: 20 marks)

QUESTION FOUR

(a)   With the aid of a well labelled diagram, explain the equilibrium level of a firm operating under an oligopolistic market structure.   (5 marks)

(b)   Summarise five reasons why the prices of agricultural products fluctuate more than the prices of manufactured products.   (5 marks)

(c)   Suggest five policy measures that could be adopted by a government to enhance geographical mobility of labour within a country.   (5 marks)

(d)   The table below shows the quantity of units produced by a certain firm and the corresponding total cost:

Units produced	Total cost (Sh."000")
0	77
2	216
4	235
6	319
8	348
10	382

Required:

(i)   The average variable costs when the units produced are 2, 6 and 10 respectively.   (3 marks)

(ii)   The marginal costs of production for the 4th and 8th units respectively.   (2 marks)

                                     (Total: 20 marks)

QUESTION FIVE

(a)   Differentiate between "demand deficient unemployment" and "disguised unemployment" as used in economics.

                             (2 marks)

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

(c)   Outline six limitations of the theory of comparative advantage as used in international trade.   (6 marks)

(d)   The following data relate to the consumption function of a hypothetical economy in millions of shillings:

           $C = 300 + 0.6y$

Where:

           C is the consumption function.

           y is the national income.

Required:

(i)   The investment function.   (1 mark)

(ii)   Discuss seven factors that determine the level of consumption in an economy.   (7 marks)

                                     (Total: 20 marks)

QUESTION SIX

(a)   Examine three roles of foreign exchange reserves in an economy.   (3 marks)

(b)   Describe six factors that determine the terms of trade in a country.   (6 marks)

(c)   Explain six causes of high levels of external debt in developing countries.   (6 marks)

(d)   Analyse five functions of non-banking financial institutions in an economy.   (5 marks)
    (Total: 20 marks)

QUESTION SEVEN

(a)   Argue six cases against the use of national income statistics to compare the standards of living between countries.   (6 marks)

(b)   With the aid of an appropriate diagram, explain the relationship between the short run average cost curve and the long run average cost curve.   (4 marks)

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

Commodity market
$$C = 200 + 0.4y$$
$$I = 1,900 - 12r$$

Money market
$$M_{DT} = 0.5y$$
$$M_{DS} = 100 - 10r$$
$$M_S = 1,500$$

Where:
C = Consumption function

y = National income

I = Investment function

r = Rate of interest

M_{DT} = Precautionary and transactionary demand for money

M_{DS} = Speculative demand for money

M_S = Money supply

Required:

(i)   The IS function.   (3 marks)

(ii)   The LM function.   (3 marks)

(iii)   The equilibrium level of interest rate.   (2 marks)

(iv)   The equilibrium level of national income.   (2 marks)
    (Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 27 November 2018.　　　　　　　　　　　　　**Time Allowed: 3 hours.**

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

QUESTION ONE

(a)　　Differentiate between "economic resources" and "non economic resources".　　(1 mark)

(b)　(i)　Explain the term "consumer sovereignty" as used in economics.　　(1 mark)

　　(ii)　Outline eight factors that hinder consumers' sovereignty.　　(8 marks)

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

(d)　　Highlight five barriers to occupational mobility of labour.　　(5 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION TWO

(a)　　With the aid of an appropriate diagram, explain the concept of "shortage" as used in market equilibrium.　　(4 marks)

(b)　　Discuss seven effects of price decontrol in an economy.　　(7 marks)

(c)　　The demand and supply functions of commodities x and y are given as:

$$Qdx = 4 - Px + 0.5Py$$
$$Qdy = 10 + Px - Py$$
$$Qsx = -3 + 4Px$$
$$Qsy = -18 + 4Py$$

Where:　Qdx is the quantity demanded of x in thousands of units.
　　　　Qdy is the quantity demanded of y in thousands of units.
　　　　Qsx is the quantity supplied of x in thousands of units.
　　　　Qsy is the quantity supplied of y in thousands of units.
　　　　Px is the price of x in thousands of shillings.
　　　　Py is the price of y in thousands of shillings.

Required:

(i)　The equilibrium price and quantity of commodity x.　　(4 marks)

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

(iii)　Explain the nature of relationship between commodity x and commodity y.　　(1 mark)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION THREE

(a)　　Summarise six characteristics of capital as a factor of production.　　(6 marks)

(b)　　Examine six applications of indifference curve analysis in an economy.　　(6 marks)

(c)　　Discuss four cases advanced by trade unions for increase in the wages of their members.　　(8 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION FOUR

(a)   Highlight five characteristics of a mixed economic system.   (5 marks)

(b)   State four advantages and four disadvantages of a monopoly market structure in an economy.   (8 marks)

(c)   The marginal propensity to save of a certain hypothetical economy is given as 0.25.

Required:
The change in the equilibrium level of national income, if the level of investments for the economy increases by Sh.300 million.   (3 marks)

(d)   A firm operating under a monopoly market structure has the following demand and cost functions:

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

Where:
P is the price in thousands of shillings.
Q is the quantity of output in thousands of units.
TC is the total cost in thousands of shillings.

Required:
The maximum level of profit of the firm.   (4 marks)
(Total: 20 marks)

QUESTION FIVE

(a)   Explain five negative effects of a contractionary monetary policy in an economy.   (5 marks)

(b)   Outline five limitations of adopting export promotion strategy in developing countries.   (5 marks)

(c)   Using appropriate diagrams. analyse the following levels of output of a monopolist firm in the short-run period:

    (i)   The profit maximising level of output.   (5 marks)

    (ii)   The loss making level of output.   (5 marks)
(Total: 20 marks)

QUESTION SIX

(a)   Suggest six measures that developing countries could adopt to curb against high levels of urban unemployment.   (6 marks)

(b)   Examine seven determinants of the level of national income of a country.   (7 marks)

(c)   Discuss seven disadvantages of adopting an import substitution strategy to control unfavourable balance of payments in a developing country.   (7 marks)
(Total: 20 marks)

QUESTION SEVEN

(a)   (i)   Explain the term "hyperinflation" as used in economics.   (1 mark)

    (ii)   With the help of a diagram, describe demand pull inflation.   (4 marks)

    (iii)   Highlight three causes of demand pull inflation in an economy.   (3 marks)

(b)   Analyse six obstacles to industrial development in developing countries.   (6 marks)

(c)   The data provided below represent economic transactions for a hypothetical country in billions of shillings:

	Total output	Intermediate purchases
Agricultural sector	55,000	24,000
Manufacturing sector	96,000	63,000
Service sector	71,000	42,000

The indirect taxes and fixed assets depreciation amount to Sh.22,000 billion and Sh.26,000 billion respectively.

Required:
(i)   The Gross National Product using the value added approach.   (2 marks)

(ii)   Net Domestic Product at market price.   (2 marks)

(iii)   Net Domestic Product at factor cost.   (2 marks)
(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 22 May 2018.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE
(a)   Discuss five negative effects of inflation in an economy.   (10 marks)

(b)   Explain five conditions that could favour effective use of price discrimination in an economy.   (10 marks)
                                                                                         (Total: 20 marks)

QUESTION TWO
(a)   Examine four determinants of money supply in an economy.   (8 marks)

(b)   Explain six reasons why a country might impose international trade restrictions.   (6 marks)

(c)   Analyse three roles of International Monetary Fund (IMF) to member countries.   (6 marks)
                                                                                         (Total: 20 marks)

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

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

Where:

Q is quantity of the product

P is the price of the product

Required:

(i)   Determine the point elasticity of demand at P = Sh.20.   (5 marks)

(ii)   Interpret your result in (a) (i) above.   (1 mark)

(b)   Suggest four reasons why wages in the agricultural sector tend to be lower than wages in the industrial sector.   (4 marks)

(c)   With the aid of a well labelled diagram, explain a normal profit making firm under oligopoly in the short-run.   (5 marks)

(d)   Highlight five determinants of economic development in a country.   (5 marks)
                                                                                         (Total: 20 marks)

QUESTION FOUR
(a)   With the aid of a well labelled diagram, explain the law of diminishing marginal utility.   (6 marks)

(b)   Outline four properties of indifference curves.   (4 marks)

(c)   Discuss five ways in which inflation might cause unemployment in an economy.   (10 marks)
                                                                                         (Total: 20 marks)

QUESTION FIVE

(a) Explain the term "partial equilibrium" as used in economics. (2 marks)

(b) Suggest three methods that the government of a country might adopt to strengthen its currency. (3 marks)

(c) Explain five differences between the "quantity theory of money" and the "liquidity preference theory of money". (10 marks)

(d) With the aid of a diagram, explain why isoquants are negatively sloped. (5 marks)

(Total: 20 marks)

QUESTION SIX

(a) With the aid of well labelled diagrams, distinguish between "price floors" and "price ceilings". (8 marks)

(b) In a hypothetical economy X, autonomous consumption equals to 800 and the marginal propensity to save equals to 0.25.

Required:

(i) Formulate the consumption function. (2 marks)

(ii) If the level of investment increased by Sh.1,000 million, determine the change in equilibrium national income. (4 marks)

(c) With the help of a diagram, justify why the condition that marginal revenue equals to marginal cost (MR = MC) is only a necessary but not a sufficient condition for maximisation. (6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Highlight five negative effects of unemployment in an economy. (5 marks)

(b) Summarise five consequences of wage control. (5 marks)

(c) The demand and total cost functions for a hypothetical firm are represented as follows:

$$P = 100$$
$$TC = 50 + 8Q^2$$

Where: P is the price

TC is the total cost

Q is the quantity

Required:

(i) The marginal cost function. (2 marks)

(ii) The average fixed cost function. (2 marks)

(iii) The marginal revenue function. (2 marks)

(iv) The profit maximising level of output. (4 marks)

(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 28 November 2017.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE
(a)   Explain the following types of development plans:

    (i)   Short term plans. (1 mark)

    (ii)   Medium term plans. (1 mark)

    (iii)   Long term plans. (1 mark)

(b)   Highlight three exceptions to the law of diminishing marginal utility. (3 marks)

(c)   Describe four functions of money in an economy. (4 marks)

(d)   Enumerate five advantages and five disadvantages of a planned economic system. (10 marks)
(Total: 20 marks)

QUESTION TWO
(a)   Analyse the relevance of interest rates in an economy. (5 marks)

(b)   Examine eight policy measures that could be adopted to minimise the problem of rising external debt in developing countries. (8 marks)

(c)   The data provided below relate to the quantities demanded of commodities A, B and C at different price levels:

Commodity A		Commodity B		Commodity C	
Unit Price (Sh.)	Quantity demanded (Units)	Unit price (Sh.)	Quantity demanded (Units)	Unit price (Sh.)	Quantity demanded (Units)
75	923	14	350	28	540
52	1,568	21	620	24	600

Required:

(i)   Elasticity of demand for commodities A, B and C. (6 marks)

(ii)   Using the results obtained in (c) (i) above, advise the government on the commodity that should be considered for a tax increase. (1 mark)
(Total: 20 marks)

QUESTION THREE

(a) Outline four factors that determine the supply of labour in an economy. (4 marks)

(b) With the aid of well labelled diagrams, analyse the effects of each of the following situations on the market equilibrium price and quantity of an agricultural product X:

  (i) A reduction in the price of product Y which is a close substitute for product X. (4 marks)

  (ii) A successful promotional campaign by producers showing the nutritional benefits of product X. (4 marks)

  (iii) Discovery of a new use for product X by consumers, accompanied by bad weather condition. (4 marks)

  (iv) Simultaneous increase in government subsidy on product X accompanied by a reduction in the price of the substitute product Y. (4 marks)
(Total: 20 marks)

QUESTION FOUR

(a) State five advantages and five disadvantages of a perfectly competitive market structure. (10 marks)

(b) Using appropriate illustrations, describe consumer equilibrium under the following approaches to the theory of consumer behaviour:

  (i) Cardinal approach. (5 marks)

  (ii) Ordinal approach. (5 marks)
(Total: 20 marks)

QUESTION FIVE

(a) The data below relate to the total cost function of a firm operating under perfect competition:

$$C = 5,000 + 500Q + 150Q^2 + 5Q^3$$

  Where: C = Total cost in thousands of shillings.
  Q = Output in units.

Required:
Assuming an output level of 10 units, determine:

  (i) Total cost of production. (1 mark)

  (ii) Average variable cost of production. (2 marks)

  (iii) Marginal cost of production. (2 marks)

(b) Explain five advantages of implementing exports promotion strategy in developing countries. (5 marks)

(c) Highlight ten problems that are faced by the agricultural sector in developing countries. (10 marks)
(Total: 20 marks)

QUESTION SIX

(a) With the aid of a diagram, explain the term "surplus" as applied in the theory of market equilibrium. (4 marks)

(b) Analyse six factors that influence the cost behaviour of a firm. (6 marks)

(c) Using well labelled diagrams, distinguish between "inflationary gap" and "deflationary gap" as used in national income statistics. (10 marks)
(Total: 20 marks)

QUESTION SEVEN

(a) Explain the difference between "inelastic demand" and "unitary elasticity of demand". (2 marks)

(b) Suggest four contractionary monetary policy measures that could be used to combat high level of inflation in a developing country. (4 marks)

(c) The data provided below represent estimated national income figures for a hypothetical economy in millions of shillings:

Gross National Product (at market price)	3,992
Depreciation allowance	570
Indirect taxes less subsidies	524
Business taxes	214
Personal income taxes	763
Government transfers	693
Retained profit	230

Required:

(i)   Net National Product at market price.   (2 marks)

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

(iii) Personal income.   (2 marks)

(iv) Disposable income.   (2 marks)

(d) Outline six challenges encountered by economic planners when using the income approach to estimate the level of national income in developing countries.   (6 marks)

(Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART 1 SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 23 May 2017.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE
(a)   Highlight four steps followed in the scientific method used in economics.   (4 marks)

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

(c)   Using indifference curve analysis, derive the Engel's curve of a normal good.   (6 marks)

(d)   Summarise five applications of opportunity cost in decision making.   (5 marks)
                                                                                 (Total: 20 marks)

QUESTION TWO
(a)   With the aid of a well labelled diagram, describe the cobweb model as used in economics. (5 marks)

(b)   With reference to the theory of production, discuss five factors that could lead to:

   (i)   Increasing returns to scale.   (5 marks)

   (ii)   Decreasing returns to scale.   (5 marks)

(c)   (i)   Explain the term "cross elasticity of demand."   (1 mark)

   (ii)   The following data relate to a consumer in a certain market:

Price of commodity x (Sh.)	Quantity consumed of commodity y (Units)
12	80
16	100
20	120
24	140
28	160

   Required:
   The cross elasticity of demand. Comment on the relationship between commodity x and commodity y. (4 marks)
                                                                                 (Total: 20 marks)

QUESTION THREE
(a)   Explain the difference between "real" and "pecuniary" economies of scale of a firm.   (1 mark)

(b)   Outline four limitations of the cardinal approach to the theory of consumer behaviour.   (4 marks)

(c)   State three reasons why the demand curve slopes downwards.   (3 marks)

(d) The following data relate to the nominal and real gross national product (GNP) levels of a certain economy for the years 2011 and 2016:

Year	Nominal GNP (Sh. billion)	Real GNP (Sh. billion)
2011	1.085	1.085
2016	1.850	1.275

Required:

(i) The gross national product implicit price deflator for the years 2011 and 2016. Interpret your results. (3 marks)

(ii) Using year 2011 as the base year, determine the inflation rate for the economy. (4 marks)

(e) With the aid of an appropriate diagram, explain the condition under which a firm operating under perfect competition market structure would make supernormal profits in the short-run. (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Highlight four salient features of a monopolistic competition market structure. (4 marks)

(b) Suggest six economic reforms that could be put in place to boost the growth of the informal sector in developing countries. (12 marks)

(c) The demand and supply functions of a certain commodity are given as follows:

$$Qd = 300 - 0.4p$$
$$Qs = -400 + 0.6p$$

Where:

Qd is the demand function.
Qs is the supply function.
p is the unit price of the commodity.

Required:

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

(Total: 20 marks)

QUESTION FIVE

(a) Explain the monetarists view on the quantity theory of money. (2 marks)

(b) Enumerate four exceptions to the law of supply. (4 marks)

(c) Recently, there have been deliberate attempts to control the rate of interest in some of the developing countries.

In view of the above statement, explain five advantages of interest rate decontrols in an economy. (5 marks)

(d) (i) Distinguish between the "multiplier" and the "accelerator" as used in national income statistics. (2 marks)

(ii) Explain four factors that could limit the application of the multiplier in developing countries. (4 marks)

(e) The following information relates to the demand of a commodity in relation to the income of a consumer:

Income (Sh.)	Demand (Units)
15,000	16
29,000	7

Required:

The income elasticity of demand of the commodity. Interpret your result. (3 marks)

(Total: 20 marks)

QUESTION SIX

(a) Argue the case for and against regional economic integration by developing countries. (12 marks)

(b) A firm operating under perfect competition has the following demand and total cost functions:

$$P = 25 - 50Q$$
$$TC = 100 - 15Q + 60Q^2$$

Where: P is the price in shillings.
Q is the quantity in units.
TC is the total cost.

Required:

(i) The level of output that would maximise profit. (5 marks)

(ii) The level of output that would minimise costs. (3 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Describe five causes of balance of payment deficits in developing countries. (5 marks)

(b) Outline six limitations of the theory of comparative advantage. (6 marks)

(c) Summarise nine reasons why unemployment is a major policy issue in developing countries. (9 marks)

(Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 22 November 2016.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE
(a)   (i)   Explain the term "price control" as used in economics.   (1 mark)

       (ii)   Highlight eight reasons for price controls in an economy.   (8 marks)

(b)   Outline six advantages of a controlled market system.   (6 marks)

(c)   With the aid of a diagram, explain the concept of consumer surplus.   (5 marks)
                                (Total: 20 marks)

QUESTION TWO
(a)   Enumerate six factors that could lead to a rightward shift of the supply curve.   (6 marks)

(b)   State six assumptions of the marginal productivity theory of wage determination.   (6 marks)

(c)   Summarise eight factors that could affect own price elasticity of demand of a commodity.   (8 marks)
                                (Total: 20 marks)

QUESTION THREE
(a)   With the aid of well labelled diagrams, discuss the short run and long run equilibrium positions of a firm operating under monopolistic competition.   (12 marks)

(b)   A monopolist sells his product in two distinct markets, A and B. The cost function of the monopolist is given as:

       $C = 100Q$

Where: C is the total cost function

       Q is the total production in units

The demand functions of the two distinct markets are given as:

$Q_A = 50 - 0.2P_A$

$Q_B = 100 - 0.5P_B$

Where;

Q_A is the demand of the product in market A.

Q_B is the demand of the product in market B.

P_A is the price of the product in market A.

P_B is the price of the product in market B.

Required:
(i)   The equilibrium level of price and quantity of the product in market A.   (4 marks)

(ii)   The equilibrium level of price and quantity of the product in market B.   (4 marks)
                                (Total: 20 marks)

QUESTION FOUR

(a) Highlight five strategies that could be implemented by governments in developing countries to spur growth in the industrial sector. (5 marks)

(b) Using an appropriate diagram, describe the expansion curve of a firm as applied in the theory of production. (5 marks)

(c) Discuss ten limitations of using national income statistics to compare the standards of living between different countries.
(10 marks)
(Total: 20 marks)

QUESTION FIVE

(a) The United Kingdom (UK) recently withdrew its membership from the European Union (EU), a process that was referred to as "Brexit". Analyse the likely economic effect of "Brexit" on the United Kingdom's:

   (i) Exchange rates. (2 marks)

   (ii) Interest rates. (2 marks)

   (iii) Inflation rate. (2 marks)

   (iv) Securities exchange market. (2 marks)

(b) The table below shows the total variable costs of Ujuzi Limited at different levels of output.

Level of output (units)	Total variable cost (Sh.)
0	0
1	80,000
2	130,000
3	200,000
4	270,000
5	310,000
6	510,000
7	530,000
8	580,000

The total fixed cost of the company is Sh.150,000.

Required:

   (i) The average cost of producing each level of output. (4 marks)

   (ii) The marginal cost of producing each level of output. (4 marks)

   (iii) The maximum attainable profit. (4 marks)
(Total: 20 marks)

QUESTION SIX

(a) Outline five factors that determine the rate of exchange of a country's currency. (5 marks)

(b) Enumerate five roles of the central bank in an economy. (5 marks)

(c) Suggest five policy measures that could be adopted to reduce the level of unemployment in a developing country.
(10 marks)
(Total: 20 marks)

QUESTION SEVEN

(a) Explain the relationship between money supply and the level of inflation in an economy. (2 marks)

(b) State six advantages of a floating exchange rate system in an economy. (6 marks)

(c) Summarise eight challenges that hinder successful achievement of national development targets set by developing countries. (8 marks)

(d)   The economic transactions for a hypothetical economy in thousands of shillings are given as follows:

Sector	Total output Sh."000"	Intermediate purchaser Sh."000"
Service	76,000	37,000
Agricultural	55,000	23,000
Manufacturing	111,000	69,000

Indirect taxes and fixed assets depreciation amount to Sh.21,000,000 and Sh.22,000,000 respectively.

Required:

(i)   Gross national product using the value added approach.   (2 marks)

(ii)   Net domestic product at market price.   (1 mark)

(iii)   Net domestic product at factor cost.   (1 mark)

(Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

TUESDAY: 24 May 2016.   **Time Allowed: 3 hours.**

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

QUESTION ONE
(a)   Outline four assumptions underlying consumer equilibrium.   (4 marks)

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

(c)   Summarise five ways through which the government could influence the allocation of resources in a free market economy.   (5 marks)

(d)   Explain how the concept of elasticity of demand guides economic decision making in the following areas:

   (i)   Government tax policy on household consumption.   (2 marks)

   (ii)   Devaluation policy.   (2 marks)

   (iii)   Price discrimination by a monopolist.   (2 marks)

                                                                                                        (Total: 20 marks)

QUESTION TWO
(a)   Differentiate between the following sets of terms as used in economics:

   (i)   "Structural unemployment" and "keynesian unemployment".   (2 marks)

   (ii)   "Narrow money" and "broad money".   (2 marks)

(b)   Highlight five disadvantages of the monopoly market structure.   (5 marks)

(c)   A certain market for commodity x contains 1,000 identical consumers, each having a demand function given as:

   $Qd_x = 12 - 2p_x$.

The market contains 100 identical producers of commodity x, each with a supply function given by $Qs_x = 20p_x$.

   Qd_x is the quantity demanded of x.
   Qs_x is the quantity supplied of x.
   P_x is the price of x.

Required:
   (i)   The market demand and market supply functions of commodity x.   (4 marks)

   (ii)   Using indifference curve analysis, illustrate the effect of a government subsidy on commodity x to low income earners.   (7 marks)

                                                                                                        (Total: 20 marks)

QUESTION THREE

(a)   Discuss five policy measures that developing countries could adopt to reduce regional imbalances.   (5 marks)

(b)   Using a well labelled diagram, evaluate the effect of simultaneous increase in demand and decrease in supply on equilibrium price and quantity of a commodity.   (5 marks)

(c)   Discuss five causes of the U-shaped long-run average cost curves of a firm.   (10 marks)

          (Total: 20 marks)

QUESTION FOUR

(a)   Enumerate six barriers to occupational mobility of labour.   (6 marks)

(b)   Illustrate the close down price of a firm operating under perfect competition.   (6 marks)

(c)   Outline eight roles of commercial banks in boosting the economic development of a country.   (8 marks)

          (Total: 20 marks)

QUESTION FIVE

(a)   Explain five factors that determine the macroeconomic level of consumption in an economy.   (10 marks)

(b)   The following data relate to the commodity and money markets of a hypothetical closed economy without government intervention, in millions of shillings:

$$C = 204 + 0.7Y$$
$$I = 300 - 100r$$
$$M_{DT} = 0.25Y$$
$$M_{DS} = 248 - 200r$$
$$M_S = 600$$

Where: C is the consumption function.
            Y is the national income.
            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)   Equilibrium level of interest rate.   (7 marks)

(ii)   Equilibrium level of national income.   (3 marks)

          (Total: 20 marks)

QUESTION SIX

(a)   Explain the term "balance of payments" as used in international trade.   (2 marks)

(b)   With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make losses in the short-run.   (6 marks)

(c)   Examine six roles of non-banking financial institutions in an economy.   (6 marks)

(d)   Describe three ways in which a government could use fiscal policy to stimulate economic growth.   (6 marks)

          (Total: 20 marks)

QUESTION SEVEN

(a)   Summarise five causes of inflation in developing countries.   (5 marks)

(b)   Highlight eight arguments in favour of international trade restrictions in a country.   (8 marks)

(c)   State seven economic goals of developing countries.   (7 marks)

          (Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

PILOT PAPER

September 2015.   Time Allowed: 3 hours.

Answer any FIVE questions.   ALL questions carry equal marks.

QUESTION ONE

(a)   (i)   Distinguish between "gross domestic product" and "gross national product".   (4 marks)

      (ii) Give the reasons for the lower value of the gross national product in the less developing countries.   (1 mark)

(b)   The following data represents economic transactions of a hypothetical economy:

	Sh. "million"
General government final expenditure	6,750
Taxes on expenditure	4,250
Transfer payments	675
Social security contributions	2,500
Net property income from abroad	250
Consumers expenditure	18,500
Subsidies	750
Gross domestic fixed capital formation	5,750
Corporate income tax	750
Undistributed profits	500
Personal income tax	1,000
Imports of goods and services	9,250
Exports of goods and services	8,750
Depreciation	3,500

Required:
Calculate:

(i)   Gross national product.   (2 marks)

(ii)   Net national product.   (2 marks)

(iii) National income.   (2 marks)

(iv)   Personal income.   (2 marks)

(v)   Disposable income.   (2 marks)

(c)   Briefly explain five functions of money.   (5 marks)
                                                                    (Total: 20 marks)

QUESTION TWO

(a)   Highlight five features of a firm under perfect competition.   (5 marks)

(b)   With the aid of a diagram, show that MC=MR is just a necessary but not sufficient condition for profit maximisation.
   (4 marks)

(c)   In the short-run, a monopolist does not necessarily have to make profits; he can make losses. Whether he makes a profit or a loss depends on the position of the short-run total cost curve (SATC) at the short-run equilibrium.

   Using an appropriate diagram, discuss the conditions for the loss minimisation of a monopolist.   (5 marks)

(d)   Under monopolistic competitive markets the products are usually differentiated yet they are very close substitutes for one another.   ,

   Explain the main types of product differentiation in monopolistic competitive market.   (6 marks)
   (Total: 20 marks)

QUESTION THREE

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

(b)   A firm operating in the short-run period has a fixed cost of Sh.8,600. The table below shows its total variable cost and the units of output:

Units of output:	0	1	2	3	4	5	6	7	8	9	10
Total variable costs (Sh.):	0	3040	5680	8000	10080	12000	14000	16240	18960	22480	26880

Required:
For each level of output, calculate the firm's total cost, average total cost, average variable cost, average fixed cost and marginal cost giving your solution in columnar form/tabular form.   (10 marks)

(c)   Using an appropriate diagram for each case, explain the three properties of isoquants.   (6 marks)
   (Total: 20 marks)

QUESTION FOUR

(a)   One of the main functions of a central bank is the effective implementation of the monetary policies.

   Discuss the main instruments of monetary policies.   (10 marks)

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

(c)   Briefly explain the effects of high levels of inflation in an economy.   (6 marks)
   (Total: 20 marks)

QUESTION FIVE

(a)   Using the indifference curve margins, discuss how the consumers equilibrium is obtained. Use an appropriate diagram to illustrate your answer.   (6 marks)

(b)   With the help of well illustrated diagrams, draw the substitution effect and income effect of:

   (i)   A normal good.

   (ii)   An inferior good.   (8 marks)

(c)   Briefly explain the concept of elasticity of demand in the economic management policy decision making.   (6 marks)
   (Total: 20 marks)

QUESTION SIX

(a)   Most developing countries experience deficits in their balance of payments.

Explain the various methods that could be used by these countries to correct deficits in their balance of payments.

(10 marks)

(b)   Explain three types of unemployment.   (6 marks)

(c)   Using the Phillips curve, explain the relationship between unemployment and inflation.   (4 marks)
                                                                              (Total: 20 marks)

QUESTION SEVEN

(a)   Briefly explain five factors that could affect the price elasticity of supply.   (5 marks)

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

      (ii)   With the aid of a diagram, explain the three stages of production according to this law.   (8 marks)

(c)   Highlight five functions of trade unions.   (5 marks)
                                                                              (Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

MONDAY: 23 November 2015.　　　　　　　　　　　　　　　**Time Allowed: 3 hours.**

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

QUESTION ONE
(a)　With the aid of a diagram, describe the concept of unstable market equilibrium.　　　(5 marks)

(b)　"All giffen goods are inferior goods but not all inferior goods are giffen goods".

　　　Using a relevant diagram, explain the above statement.　　　(5 marks)

(c)　Argue five cases for and five cases against specialisation as a method of production.　　　(10 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION TWO
(a)　Outline four arguments upon which trade unions base their demand for increase in wages for unionisable employees.
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(4 marks)

(b)　State six effects of price decontrols to an economy.　　　(6 marks)

(c)　Analyse six uses of elasticity of demand in decision making.　　　(6 marks)

(d)　The following information relate to the price per unit and quantity supplied of a certain product:

Price per unit (Sh.)	12	10	8	5	2
Quantity supplied (Units)	12,000	11,000	9,000	6,000	0

Required:
Price elasticity of supply when price decreases from Sh.10 per unit to Sh.5 per unit. Interpret your result.　　　(4 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION THREE
(a)　Explain the term "optimal size of a firm".　　　(2 marks)

(b)　With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make super normal profits in the short-run.　　　(5 marks)

(c)　(i)　Summarise seven barriers to geographical mobility of labour as a factor of production.　　　(7 marks)

　　　(ii)　Highlight six measures that could be adopted by a government to enhance mobility of labour.　　　(6 marks)
　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　(Total: 20 marks)

QUESTION FOUR

(a)   Outline five problems associated with the expenditure approach of measuring the national income of a country.

(5 marks)

(b)   Enumerate five changes in the tax policy that could be implemented by a government to spur growth in the agricultural sector.

(5 marks)

(c)   The following information relates to savings and investments of a certain economy in millions of shillings:

$$S = - 500 + 0.36Y$$
$$I = 8.000$$

Where:

S = Savings function.
Y = National income.
I   = Investments function.

Required:

(i)   The consumption function.

(3 marks)

(ii)   The equilibrium level of national income.

(3 marks)

(iii)   The multiplier. Interpret your result.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

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

(10 marks)

(b)   Discuss five factors that limit the effectiveness of monetary policies in developing countries.

(10 marks)

(Total: 20 marks)

QUESTION SIX

(a)   Explain four effects of inflation on the functions of money.

(8 marks)

(b)   (i)   Outline six causes of high levels of external debts in developing countries.

(6 marks)

(ii)   Summarise six policies that could be adopted to combat the problem of high levels of external debts in developing countries.

(6 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   Highlight five determinants of money supply in an economy.

(5 marks)

(b)   Describe five differences between commercial banks and non-banking financial institutions.

(10 marks)

(c)   The data provided below represent estimated national income figures for country "X" in trillion of shillings:

Gross National Product (at market price)	620.4
Government transfers	78.6
Business taxes	18.2
Personal income taxes	56.1
Depreciation allowance	42.3
Indirect taxes less subsides	36.5

Required:

(i)   Net National Income at factor cost.

(2 marks)

(ii)   Net National Product at market price.

(1 mark)

(iii)   Personal income.

(1 mark)

(iv)   Disposable income for country "X".

(1 mark)

(Total: 20 marks)

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