



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:

$$\begin{aligned} P &= 10 - 0.2Q \\ P &= 50 - 0.5Q \end{aligned}$$

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)**
-