ATD LEVEL III

PRINCIPLES OF ECONOMICS


Answer any FIVE questions.

QUESTION ONE
(a) Distinguish between “positive economics” and “normative economics”. (4 marks)
(b) Explain five roles of the government in resource allocation in a country. (5 marks)
(c) Outline five factors that determine price elasticity of supply in the market. (5 marks)
(d) Identify six demerits of a planned economic system. (6 marks)

(Total: 20 marks)

QUESTION TWO
(a) Summarise three exceptions to the law of diminishing marginal utility. (3 marks)
(b) Distinguish between a “giffen good” and an “inferior good”. (4 marks)
(c) Explain five advantages to an economy of mobility of factors of production. (5 marks)
(d) With the aid of diagrams, differentiate between a “change in demand” and a “change in quantity demanded”. (8 marks)

(Total: 20 marks)

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

\[ P = 10 - 0.2Q \]
\[ P = 50 - 0.5Q \]

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

Required:
(i) Giving reasons, determine the demand and supply functions. (4 marks)
(ii) The equilibrium price and quantity of the commodity. (4 marks)

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

\[ TC = 75 + 15Q \]

Where: \( TC \) is total cost.
\( Q \) is quantity.

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

Time Allowed: 3 hours.

ALL questions carry equal marks.
(c) Explain the following terms as used in economics:

(i) Composite supply. 
(ii) Complementary demand. 

(d) Highlight six roles of foreign aid in the economic development of developing countries. 

(Total: 20 marks)

QUESTION FOUR

(a) Identify five limitations of the ordinalist approach to the study of consumer behaviour. 

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

(c) (i) Explain the term "inflation" as used in economics. 
(ii) Summarise four causes of inflation. 

(d) Explain the relationship between the multiplier and the accelerator. 

(Total: 20 marks)

QUESTION FIVE

(a) State five reasons for the deteriorating terms of trade for developing countries. 

(b) Explain four forms of economic integration. 

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

(d) Highlight five functions of the International Monetary Fund (IMF). 

(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. 

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

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

(d) Outline six functions of the central bank in a country. 

(Total: 20 marks)

QUESTION SEVEN

(a) Explain five factors that determine the value of money in an economy. 

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

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

(d) Outline four factors that might lead to occurrence of a market disequilibrium for a product. 

(Total: 20 marks)