



kasneb

ATD LEVEL III

PRINCIPLES OF ECONOMICS

TUESDAY: 26 November 2019.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Distinguish between “microeconomics” and “macroeconomics”. (4 marks)
  - (b) Explain six reasons why government might reintroduce price control mechanism in an economy. (6 marks)
  - (c) Discuss five characteristics of a mixed economic system. (10 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Identify five limitations of barter trade. (5 marks)
  - (b) Explain five factors that determine the price elasticity of demand of a commodity. (5 marks)
  - (c) State five applications of indifference curve analysis in an economy. (5 marks)
  - (d) Using a well-labelled diagram, explain the trade off between work and leisure. (5 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) The demand and supply function of a given commodity are represented by:

$$Q_d = 126 - 9p$$

$$Q_s = 18 + 3p$$

Where  $Q_d$  is the quantity demanded.

$Q_s$  is the quantity supplied.

Required:

- (i) The equilibrium price of the commodity. (3 marks)
  - (ii) The equilibrium quantity of the commodity. (2 marks)
- (b) Using a well labelled diagram, explain the relationship between the long run and short run average cost curves. (5 marks)
  - (c) State four assumptions of the law of diminishing returns. (4 marks)
  - (d) Explain three reasons why the demand curve slopes downwards. (6 marks)
- (Total: 20 marks)

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**QUESTION FOUR**

- (a) Outline four causes of cost push inflation. (4 marks)
  - (b) Explain the impact of inflation on the following:
    - (i) Consumers. (2 marks)
    - (ii) Creditors. (2 marks)
    - (iii) Savings. (2 marks)
  - (c) Distinguish between “absolute advantage” and “comparative advantage” as applied in international trade. (4 marks)
  - (d) Analyse six corrective measures that developing countries might institute to reduce persistent deficits in their balance of payment account. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Identify four characteristics of money as a medium of exchange. (4 marks)
  - (b) Discuss three reasons why individuals hold money according to John M. Keynes. (6 marks)
  - (c) Explain ten challenges faced by economic planners in developing countries. (10 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) Summarise five roles of non bank financial institutions in an economy. (5 marks)
  - (b) Explain five factors that determine the efficiency of labour as a factor of production. (5 marks)
  - (c) Discuss five reasons why it is necessary to estimate the national income of a country. (10 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Distinguish between “economic growth” and “economic development”. (4 marks)
  - (b) Highlight seven factors that could contribute to low economic growth rate in most developing countries. (7 marks)
  - (c) Using a well labelled diagram, explain the phenomenon of vicious cycle of poverty. (4 marks)
  - (d) Summarise five policy measures that could be implemented to combat poverty in developing countries. (5 marks)
- (Total: 20 marks)**
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