kasneb

ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 27 November 2017. Time Allowed: 3 hours.

Answer any FIVE questions. ALL questions carry equal marks.

QUESTION ONE

(a) Highlight four factors that promote the existence of monopolies in an economy. (4 marks)

(b) Enumerate four contributions of non banking financial institutions in an economy. (4 marks)

(c) Outline six problems associated with the following approaches of measuring national income:

(i) The value added approach. (6 marks)

(ii) The expenditure approach. (6 marks)

(Total: 20 marks)

QUESTION TWO

(a) Distinguish between "arc elasticity" and "point elasticity" of demand. (4 marks)

(b) Summarise four objectives of trade unions. (4 marks)

(c) Using indifference curve analysis, illustrate the case for the following types of goods:

(i) Perfect substitutes. (6 marks)

(ii) Complementary goods. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Highlight five limitations of indifference curve analysis. (5 marks)

(b) Argue five cases against specialisation of trade. (10 marks)

(c) The data below relate to the demand and supply of a certain commodity:

Unit Price (Sh.)	Quantity demanded (Units)	Quantity supplied (Units)
5	160,000	40,000
10	150,000	52,000
15	138,000	60,000
20	105,000	80,000
25	96,000	125,000
30	65,000	138,000
35	50,000	180,000

Required:

The equilibrium price and quantity of the commodity using the graphical method. (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain two reasons why the marginal cost curve always intersects the average cost curve at the lowest point. (4 marks)

(b) Outline six limitations of a monopoly market structure in an economy. (6 marks)

(c) Discuss five barriers to occupational mobility of labour as a factor of production. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The following information relates to the national income statistics of a hypothetical economy in billions of shillings:

Gross national product (at market price)	777
Depreciation allowance	143
Subsidies	26
Indirect taxes	133

Required:

(i) Net national product at market price. (2 marks)

(ii) Net national product at factor cost. (2 marks)

(b) Examine three motives for holding money as advanced by Keynes. (6 marks)

(c) Discuss ten causes that could lead to high cost of living in a developing country. (10 marks)

(Total: 20 marks)

QUESTION SIX

(a) Using an appropriate diagram, analyse the relationship between the marginal product curve and the average product curve. (5 marks)

(b) With the aid of a well labelled diagram, explain how monetary policy could be used to control inflationary gap in an economy. (5 marks)

(c) Describe five instruments of monetary policy that could be used to control the level of money supply in an economy. (10 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Outline seven challenges encountered by developing countries when implementing development plans. (7 marks)

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

$$Y = C + I$$
$$C = 100 + 0.5Y$$
$$I = 500 - 10r$$
$$M_{DT} = 0.25Y$$
$$M_{DS} = 300 - 20r$$
$$M_S = 400$$

Where: Y is the national income
C is the consumption function
I is the investments function
r is the rate of interest
M_{DT} is the precautionary and transactionary demand for money
M_{DS} is the speculative demand for money
M_S is the money supply

Required:

(i) The IS function. (4 marks)

(ii) The LM function. (4 marks)

(iii) The equilibrium level of interest rate. (3 marks)

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

(Total: 20 marks)

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