ATD LEVEL III

PRINCIPLES OF ECONOMICS

MONDAY: 26 November 2018. Time Allowed: 3 hours.

Answer any FIVE questions. ALL questions carry equal marks.

QUESTION ONE
(a) Argue six cases in favour of specialisation of trade. (6 marks)
(b) Highlight five characteristics of a free market system in an economy. (5 marks)
(c) Citing relevant examples, distinguish between “substitutes” and “compliments” as used in economics. (4 marks)
(d) Identify five factors that might lead to a rightward shift in the supply curve. (5 marks)
(Total: 20 marks)

QUESTION TWO
(a) The quantity supplied of a commodity is 60 units when the prevailing price is 45 Shillings. However, when the price rises to 50 Shillings, the quantity supplied of the commodity increases to 75 units.

Required:
(i) The price elasticity of supply. (3 marks)
(ii) Interpret your results in (a)(i) above. (2 marks)
(b) Outline five demerits of fixing a maximum price of a commodity in an economy. (5 marks)
(c) Distinguish between the “real sector” and the “monetary sector” of an economy. (4 marks)
(d) Summarise six roles of commercial banks in an economy. (6 marks)
(Total: 20 marks)

QUESTION THREE
(a) Identify four factors that determine wages of workers in an economy. (4 marks)
(b) Differentiate between “isocost line” and “isoquant” as applied in the theory of production. (4 marks)
(c) Discuss four types of mobility of labour as a factor of production. (8 marks)
(d) Explain four measures that could be adopted in an economy to control against a deflationary gap. (4 marks)
(Total: 20 marks)

QUESTION FOUR
(a) Explain the concept of multiplier as used in economics. (2 marks)
(b) Analyse four roles of the multiplier in an economy. (8 marks)
(c) With the aid of a diagram, explain a firm’s expansion path. (6 marks)
(d) Illustrate the concept of consumer surplus as applied in the theory of consumer behaviour. (4 marks)
(Total: 20 marks)

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QUESTION FIVE
(a) Explain the term “quasi rent” as applied in the theory of production. (2 marks)
(b) Highlight eight factors that limit economic growth and development in developing countries. (8 marks)
(c) Enumerate six causes of unemployment in an economy. (6 marks)
(d) With the aid of a well labelled diagram, explain the long run equilibrium of a firm operating under perfect competition. (4 marks)
(Total: 20 marks)

QUESTION SIX
(a) Summarise four benefits of international trade to developing countries. (4 marks)
(b) Suggest five challenges facing economic integration in developing countries. (5 marks)
(c) Outline six economic effects of inflation to an economy. (6 marks)
(d) Identify five measures that might be adopted in an economy to overcome the challenges of development planning. (5 marks)
(Total: 20 marks)

QUESTION SEVEN
(a) The consumption function of a hypothetical economy is given as follows:

\[ C = 50 + 0.75Y^d \]

Where: \( Y^d \) is the disposable income.

Required:
(i) The marginal propensity to save. (2 marks)
(ii) The level of consumption assuming income of 500 Shillings and a tax rate of 25%. (3 marks)

(b) Describe five methods employed by the government to influence allocation of resources in an economy. (5 marks)
(c) Explain five factors that might limit consumer sovereignty. (5 marks)
(d) Outline five characteristics of a market operating under duopoly market structure. (5 marks)

(Total: 20 marks)