

KASNEB

ATD LEVEL III

PRINCIPLES OF ECONOMICS

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Briefly explain five factors affecting the supply of a commodity. (5 marks)
- (b) Using appropriate diagrams, distinguish between a stable and unstable equilibrium. (8 marks)
- (c) (i) Define the term "Price Elasticity of Demand". (2 marks)
- (ii) Explain any three factors affecting the price elasticity of demand. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) With reference to the liquidity preference theory, explain three reasons why people demand money. (6 marks)
- (b) Highlight four functions of money. (4 marks)
- (c) Explain five functions performed by the Central Bank of your country. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) (i) State the law of diminishing marginal utility. (2 marks)
- (ii) Highlight any three assumptions upon which this law is based. (3 marks)
- (b) With the aid of a diagram, explain how the consumer's equilibrium is derived under the indifference curves approach. (5 marks)
- (c) Using the indifference curves analysis, distinguish between a "normal good" and an "inferior good". (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Using appropriate examples, distinguish between "fixed costs" and "variable costs". (4 marks)
- (b) Briefly explain four sources of monopoly power in a market. (8 marks)
- (c) Using appropriate diagrams, discuss the equilibrium of a firm under perfect competition both in the shortrun and in the longrun. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain three main approaches used in the computation of National Income. (6 marks)
- (b) The table below represents values of economic transactions for a hypothetical country (figures in billions of shillings).

	(Sh. billions)
Profits of corporations	16
Salaries and wages	90
Rent income	6
Depreciation	16
Indirect taxes	14
Subsidies	6
Net factor income abroad	-10
Net interest	8

Required:

- (i) Gross Domestic Product. (2 marks)
 - (ii) Net Domestic Product at factor cost. (2 marks)
 - (iii) Net Domestic Product at market prices. (2 marks)
 - (iv) Gross National Product. (2 marks)
 - (v) National Income. (2 marks)
 - (c) Using appropriate examples, distinguish between “economic growth” and “economic development”. (4 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) (i) State the law of diminishing returns. (2 marks)
 - (ii) Using an appropriate diagram, discuss the three stages of production according to this law. (8 marks)
 - (b) Explain five features of a free market economy as a way of allocating resources among alternative uses. (10 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Briefly explain four stages of a trade cycle. (8 marks)
- (b) The following are economic functions for company ABC Limited:

$$Q_n = 48 - 2P^2$$

$$Q_b = 6p^2 - 8P$$

Where P represents price and Q is the quantity.

Required:

- (i) Giving reasons, identify the demand curve and the supply curve. (4 marks)
 - (ii) Determine the price and the quantity at which the market is at equilibrium. (6 marks)
 - (c) Highlight two economies of scale enjoyed by a firm as a result of large scale production. (2 marks)
- (Total: 20 marks)**
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