KASNEB
CPA PART I SECTION 2
CS PART I SECTION 2
CIFA PART I SECTION 2
CCP PART I SECTION 2
ECONOMICS

TUESDAY: 24 May 2016.

Answer any FIVE questions.

QUESTION ONE
(a) Outline four assumptions underlying consumer equilibrium.

(b) With the aid of a diagram, explain the production possibility frontier.

(c) Summarise five ways through which the government could influence the allocation of resources in a free market economy.

(d) Explain how the concept of elasticity of demand guides economic decision making in the following areas:
   (i) Government tax policy on household consumption.
   (ii) Devaluation policy.
   (iii) Price discrimination by a monopolist.

QUESTION TWO
(a) Differentiate between the following sets of terms as used in economics:
   (i) “Structural unemployment” and “keynesian unemployment”.
   (ii) “Narrow money” and “broad money”.

(b) Highlight five disadvantages of the monopoly market structure.

(c) A certain market for commodity x contains 1,000 identical consumers, each having a demand function given as:

\[ Q_{d_1} = 12 - 2p_x \]

The market contains 100 identical producers of commodity x, each with a supply function given by \[ Q_{s_1} = 20p_x \].

\[ Q_{d_1} \] is the quantity demanded of x,
\[ Q_{s_1} \] is the quantity supplied of x.
\[ p_x \] is the price of x.

Required:
(i) The market demand and market supply functions of commodity x.
(ii) Using indifference curve analysis, illustrate the effect of a government subsidy on commodity x to low income earners.

(Time Allowed: 3 hours.
ALL questions carry equal marks.

(Total: 20 marks)

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QUESTION THREE
(a) Discuss five policy measures that developing countries could adopt to reduce regional imbalances. (5 marks)

(b) Using a well labelled diagram, evaluate the effect of simultaneous increase in demand and decrease in supply on equilibrium price and quantity of a commodity. (5 marks)

(c) Discuss five causes of the U-shaped long-run average cost curves of a firm. (10 marks) (Total: 20 marks)

QUESTION FOUR
(a) Enumerate six barriers to occupational mobility of labour. (6 marks)

(b) Illustrate the close down price of a firm operating under perfect competition. (6 marks)

(c) Outline eight roles of commercial banks in boosting the economic development of a country. (8 marks) (Total: 20 marks)

QUESTION FIVE
(a) Explain five factors that determine the macroeconomic level of consumption in an economy. (10 marks)

(b) The following data relate to the commodity and money markets of a hypothetical closed economy without government intervention, in millions of shillings:

\[ C = 204 + 0.7Y \]
\[ I = 300 - 100r \]
\[ M_{DT} = 0.25Y \]
\[ M_{DS} = 248 - 200r \]
\[ M_{S} = 600 \]

Where:
- \( C \) is the consumption function.
- \( Y \) is the national income.
- \( I \) 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) Equilibrium level of interest rate. (7 marks)
(ii) Equilibrium level of national income. (3 marks) (Total: 20 marks)

QUESTION SIX
(a) Explain the term "balance of payments" as used in international trade. (2 marks)

(b) With the aid of an appropriate diagram, explain the condition under which a firm operating under oligopoly market structure would make losses in the short-run. (6 marks)

(c) Examine six roles of non-banking financial institutions in an economy. (6 marks)

(d) Describe three ways in which a government could use fiscal policy to stimulate economic growth. (6 marks) (Total: 20 marks)

QUESTION SEVEN
(a) Summarise five causes of inflation in developing countries. (5 marks)

(b) Highlight eight arguments in favour of international trade restrictions in a country. (8 marks)

(c) State seven economic goals of developing countries. (7 marks) (Total: 20 marks)

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