



kasneb

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

ECONOMICS

WEDNESDAY: 27 November 2019.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

**QUESTION ONE**

- (a) Examine four limitations of a planned economic system. (4 marks)
- (b) With the aid of a diagram, explain the concept of production possibility curve. (5 marks)
- (c) With the help of a diagram, illustrate the concept of surplus as applied in the theory of market equilibrium. (5 marks)
- (d) The following equations are given:

$$Q = -10 + 6P \dots\dots\dots \text{equation (i)}$$
$$Q = 20 - 4P \dots\dots\dots \text{equation (ii)}$$

**Required:**

- (i) Giving reasons, identify the demand function and the supply function. (2 marks)
- (ii) Determine the equilibrium price and quantity. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Evaluate three fundamental economic issues that a society has to address to minimise the problem of scarcity of resources. (6 marks)
- (b) Explain five factors that lead to the external economies of scale in an economy. (10 marks)
- (c) Describe two assumptions of the law of variable proportions. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight four assumptions of consumer rationality. (4 marks)
- (b) With the aid of a well labelled diagram, explain the concept of a backward bending supply curve of labour. (6 marks)
- (c) A firm operating under perfect competition observed that:
1. At a unit price of Sh.20 of product "R", 600 units were sold.
  2. At an increased price of Sh.70, the sales of product "R" decreased by 500 units.
  3. The relationship between the price of product "R" and the quantity sold of product "R" is linear.
  4. The total cost (TC) of product "R" is given by the function:

$$TC = 0.9q^2 + 30q + 1,000$$

Where q is the quantity of product "R" produced and sold.

**Required:**

- (i) The revenue function of product "R". (4 marks)
- (ii) The profit earned at equilibrium. (4 marks)
- (iii) The equilibrium price. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) The per capita income of a hypothetical country increased by 20% from the year 2015 to year 2018.

Despite this increase in per capita income, the residents of the country felt that their living standards were deteriorating.

**Required:**

Discuss five reasons that might have led to this feeling by the residents. (10 marks)

- (b) Describe three methods that could be used to measure the national income of a country. (6 marks)

- (c) The following are the consumption and investment functions of country Y in Sh. "Billion".

$$\begin{aligned} C &= 200 + 0.8Y \\ I &= 400 \end{aligned}$$

Where:

C is Consumption

Y is Income

I is Investment

**Required:**

Calculate the aggregate spending at equilibrium level. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Examine four benefits of a contractionary monetary policy to an economy. (4 marks)

- (b) Explain six factors that determine the level of induced investments in an economy. (6 marks)

- (c) The value of money varies inversely with the level of prices.

With reference to the above statement, justify six positive economic effects of a prolonged fall in the value of money in an economy. (6 marks)

- (d) With the aid of a well labelled diagram, explain the trade-off between inflation and unemployment level. (4 marks)

**(Total: 20 marks)**

**QUESTION SIX**

- (a) Identify four reasons against international trade restrictions. (8 marks)

- (b) Summarise four functions of World Trade Organisation (WTO). (4 marks)

- (c) The citizens of your country have raised concern over the increased rate of Foreign Direct Investment in your country.

**Required:**

Assess four cases in favour of and four cases against Foreign Direct Investment in an economy. (8 marks)

**(Total: 20 marks)**

**QUESTION SEVEN**

- (a) Enumerate five causes of inequalities in the distribution of income and wealth in an economy. (5 marks)

- (b) Explain five benefits of development planning in an economy. (5 marks)

- (c) Distinguish between "depreciation of a currency" and "demonetisation of the currency". (4 marks)

- (d) Highlight six possible effects of demonetisation of the currency. (6 marks)

**(Total: 20 marks)**