kasneb

CPA FOUNDATION LEVEL

CIFA FOUNDATION LEVEL

ECONOMICS

THURSDAY: 16 December 2021.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

(a) Using a suitable example, explain the term "composite supply". (2 marks)

(b) Summarise five factors that cause persistent market disequilibrium in an economy. (5 marks)

(c) Highlight six reasons why the demand of a commodity might not increase following a decrease in the price of the commodity. (6 marks)

(d) Outline seven advantages of a free market economic system. (7 marks)
(Total: 20 marks)

QUESTION TWO

(a) Examine six features of capital as a factor of production. (6 marks)

(b) Using indifference curve analysis, derive the engel curve of a normal good. (8 marks)

(c) State six conditions that are necessary for effective price discrimination by a monopolist. (6 marks)
(Total: 20 marks)

QUESTION THREE

(a) Summarise four effects of expansionary fiscal policy in an economy. (4 marks)

(b) Describe six qualities of money as a medium of exchange. (6 marks)

(c) Discuss five technical economies of scale. (10 marks)
(Total: 20 marks)

QUESTION FOUR

(a) Citing an example, explain the term "hidden unemployment". (2 marks)

(b) Outline five factors that determine the economic development of a country. (5 marks)

(c) The marginal cost function of a certain firm is given by:

MC = 6Q + 4
Where = MC is the marginal cost function
Q is the level of output

Required:

(i) The total cost function. (2 marks)

(ii) The average fixed cost function. (2 marks)

(iii) The average variable cost function. (2 marks)

(iv) The level of output that would minimise the average variable cost. (3 marks)

(v) The level of output that would minimise the average total cost. (4 marks)
(Total: 20 marks)

QUESTION FIVE

(a)   Highlight five advantages of using a free exchange rate system in an economy.   (5 marks)

(b)   Enumerate seven criticisms levelled against the theory of comparative advantage.   (7 marks)

(c)   Explain four limitations of the loanable funds theory of interest rates.   (8 marks)

(Total: 20 marks)

QUESTION SIX

(a)   Discuss five differences between monopoly and monopolistic market structures.   (10 marks)

(b)   The following data relate to the nominal and real gross national product (GNP) levels for a hypothetical economy for the years 2011 and 2019:

Year	Nominal GNP "Sh.billion"	Real GNP "Sh.billion"
2011	1,185.90	1,185.90
2019	2,633.00	1,474.00

Required:

(i)   The implicit GNP price deflator for the years 2011 and 2019. Interpret your results.   (5 marks)

(ii)   The inflation rate of the economy, using year 2011 as the base year.   (5 marks)

(Total: 20 marks)

QUESTION SEVEN

(a)   (i)   Define the term "inflation targeting".   (1 mark)

        (ii)   State four disadvantages of inflation targeting in a country.   (4 marks)

(b)   Explain four causes of a demand-pull inflation in an economy.   (8 marks)

(c)   Outline seven limitations of regional economic integration in developing countries.   (7 marks)

(Total: 20 marks)

....