**RCM ONLINE COLLEGE**

**MR.ODONGO**

**ECONOMICS CAT**

**ATD 3**

**ANSWER ANY FIVE QUESTIONS**

**QUESTION ONE**

1. Highlight five characteristics of mixed economic system (5 marks)
2. Highlight five steps followed in the scientific method used in economics ( 5marks)
3. Differentiate between Microeconomics and macroeconomics (2 marks)
4. Outline four functions of Economic system ( 4 marks)
5. Explain four importance of studying Economics (4 marks)

**QUESTION TWO**

1. Explain five reasons as why the demand curve is negatively sloping (5 marks)
2. Using illustration describe the tradeoff between work and leisure (5marks)
3. Outline five causes of market failure in economics (5marks)
4. Highlight reasons for fixing a price ceiling (5marks)

**QUESTION THREE**

1. With the aid of a diagram explain the term “ Consumer surplus” (4marks)
2. Outline four assumptions underlying consumer equilibrium (4marks)
3. Using the indifference curve analysis derive the demand curve for a normal good (5marks)
4. With reference to production discuss five factors that could lead to increasing returns to scale (5marks)
5. Explain the difference between “real” and “pecuniary” economies of scale of a firm (2marks)

**QUESTION FOUR**

1. The demand and average cost function of a firm are given by

Q-90+2P =0

 And

AC = Q2 -8Q + 57 + 2Q-1

Where Q is the output and P is the price

**Required**

The output level that will maximize profit (8marks)

1. Using a well labeled diagram ,explain why the marginal revenue(MR) Curve lies below Average Revenue (AR) curve (4marks)
2. Distinguish between perfect oligopoly and imperfect oligopoly (2marks)
3. With the aid of a diagram explain why a loss making firm under perfect competition continues with production of goods and services in the short-run (6marks)

**QUESTION FIVE**

1. Examine five determinant of nation income of a country (5marks)
2. The following information relates to national income statistics of a hypothetical economy in billions of shillings

|  |  |
| --- | --- |
| Personal income tax | 5,000 |
| Price index | 250 |
| Undistributed profits | 3,000 |
| Business taxes | 4,000 |
| Transfer payments | 8,000 |
| Social security contributions | 11,000 |
| subsidies | 4,000 |
| Consumer expenditure | 75,000 |
| Net property income from abroad | 1,000 |
| Taxes on expenditure  | 18,000 |
| Depreciation allowances | 15,000 |
| Exports of good | 36,000 |
| Gross domestic fixed capital formation | 24,000 |
| Government expenditure | 28,000 |
| Imports on goods and services  | 38,000 |

**Required**

1. Gross national product at market price (4marks)
2. Disposable income (4marks)
3. Real gross national product (2marks)
4. Briefly describe how fiscal policy can be used to control inflationary gap (5marks)

**QUESTION SIX**

1. Explain five reasons why unemployment is a major policy issue in developing countries (5marks)
2. Explain 5 determinant of money supply in an economy (5marks)
3. Explain five disadvantages of adopting import substitution strategy to correct the balance of payment deficit in developing countries (5marks) (5marks)
4. Explain how the politics in a country affect the economy (5marks)

**QUESTION SEVEN**

1. Explain causes of high level of external debts in developing countries (5marks)
2. Identify ten characteristics of a good development plan (10 marks)
3. Describe 5 limitations of the theory of comparative advantage (5marks)