**RCM ONLINE**

**CAT 11**

# ATD LEVEL III

# PRINCIPLES OF ECONOMICS

**Time Allowed: 3 hours. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

# QUESTION ONE

1. (i) Explain the term “Command Economy” as used in economics. (2 marks)
   1. Explain **FOUR** disadvantages of a free market system in an economy. (8 marks)
2. (i) Distinguish between “price elasticity of demand” and “price elasticity of supply”. (4 marks)
   1. Explain **THREE** determinants of price elasticity of demand. (6 marks)

# (Total: 20 marks)

**QUESTION TWO**

1. (i) Using a diagram, explain the concept of indifference curves. (4 marks)

(ii) Outline **FOUR** properties of indifference curves. (4 marks)

1. Identify **FOUR** assumptions of the law of equi-marginal utility. (4 marks)
2. The following information relates to the demand and supply functions of two commodities:

|  |  |  |
| --- | --- | --- |
| Qd1 | = | 92 + 2P2 – 4P1 |
| Qs1 | = | –6 + 32P1 |
| Qd2 | = | 82 – 3P2 + P1 |
| Qs2 | = | –5 + 15P2 |

Where; Qd1 = Quantity demanded of commodity 1 Qs1 = Quantity supplied of commodity 1 Qd2 = Quantity demanded of commodity 2 Qs2 = Quantity supplied of commodity 2 P1 = Price of commodity 1

P2 = Price of commodity 2

# Required:

Determine the equilibrium price and quantity of commodities 1 and 2. (8 marks)

# (Total: 20 marks)

**QUESTION THREE**

1. Outline **SIX** merits associated with specialization of labor. (6 marks)
2. Explain **THREE** applications of the concept of consumer surplus in an economy. (6 marks)
3. (i) With reference to the theory of production, define the term “mobility of a factor”. (2 marks)

(ii) Explain **SIX** determinants of the supply of a factor of production in an economy. (6 marks)

# (Total: 20 marks)

**QUESTION FOUR**

1. (i) With reference to market structure, define the term “Cartels”. (2 marks)

(ii) State **THREE** factors that could lead to the success of a Cartel in business. (3 marks)

1. Highlight **FIVE** differences between “monopolistic competition” and “monopoly market structures”. (5 marks)
2. Dragon, a medium size firm which specializes in the production of Nuts, has its determined cost structure per unit of Nuts produced as follows:

# Sh.

|  |  |
| --- | --- |
| Fixed costs per period | 30,000 |
| Variable costs per unit of Nut | 20 |
| Selling price per Nut  **Required:** | 60 |

* 1. Compute the break-even number of Nuts that could facilitate economic profit. (2 marks)
  2. Determine the number of Nuts that would give a profit of Sh.100,000. (2 marks)
  3. If the price of Nut falls to Sh.40 per Nut, determine the breakeven level of output. (2 marks)

1. Explain **FOIUR** factors that are responsible for wage differential between different occupations in an economy.

(4 marks)

# (Total: 20 marks)

**QUESTION FIVE**

1. The following data relates to a firm in the short-run.

|  |  |
| --- | --- |
| **Quantity**  **Units** | **Total Cost**  **Sh.** |
| 0 | 100 |
| 15 | 550 |
| 25 | 830 |
| 35 | 1,080 |
| 45 | 1,300 |
| 55 | 1,600 |
| 65 | 2,100 |
| 75 | 2,800 |
| 85 | 3,700 |
| 95 | 4,800 |
| 100 | 6,100 |

# Required:

* 1. Calculate the average fixed cost and average variable cost when the firm produces 65 units. (4 marks)
  2. Plot the marginal cost curve. (8 marks)

1. Summarize **FOUR** reasons why it is necessary to measure the national income of a country. (8 marks)

# (Total: 20 marks)

**QUESTION SIX**

1. With reference to Keynesian theory of money, explain **THREE** motives for people holding wealth in form of money. (6 marks)
2. (i) Explain the term “currency devaluation”. (2 marks)

(ii) State **THREE** advantages of currency devaluation. (3 marks)

1. With the aid of a well labeled diagram, distinguish between “shift in supply” and “movement along the supply curve”. (4 marks)
2. Outline **FIVE** obstacles that hinder economic development in developing countries. (5 marks)

# (Total: 20 marks)

**QUESTION SEVEN**

1. (i) Explain the concept of unemployment as used in economics. (2 marks)

(ii) State **SIX** measures that could be adopted by developing countries to reduce unemployment. (6 marks)

1. Outline **FIVE** roles of the central bank in an economy. (5 marks)
2. Identify **SEVEN** factors that limit economic planning in developing countries. (7 marks)

# (Total: 20 marks)

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