**RCM ONLINE COLLEGE**

**PRINCIPLES OF ECONOMICS CAT 2**

**SEPTEMBER TO DECEMBER**

**Instructions; Answer All questions**

**EACH QUESTION CARRIES 10 MARKS**

**QUESTION 1**

"A government might intervene in a free market economic system". Discuss five reasons that might drive a government to intervene.

**QUESTION 2**

(a)Explain four disadvantages of a planned economy.

(b)The following data relate to the nominal and real gross national product (GNP) levels of a certain economy for the years 2011 and 2016:

|  |  |  |
| --- | --- | --- |
| **Year** | **Nominal GNP**  **(Sh. Billion)** | **Real GNP**  **(Sh. Billion)** |
| 2011  2016 | 1.085  1.850 | 1.085  1.275 |

**Required:**

The gross national product implicit price deflator for the years 2011 and 2016. Interpret your results.

**QUESTION 3**

Summarise five roles of economic agents in a mixed economy.

**QUESTION 4**

(a) Using a suitable example, explain the term ‘opportunity cost’.

(c) Briefly explain five characteristics of a free market system.

**QUESTION 5**

With the aid of appropriate diagrams, describe three properties of indifference curves.

**QUESTION 6**

(c) Summarise five requirements for computation of consumer price index.

(d) Using a well-labeled diagram explain the consumer's utility maximising position.

**QUESTION 7**

A firm is faced with the following demand and total cost functions:

Q= 150+2P.

TC = 80 + 20Q.

**Where:** Q = quantity in kilogrammes.

TC = Total costs.

P = Price.

**Required:**

(i) Marginal revenue function.

(ii) Profit maximizing level of output.

**QUESTION 8**

State five advantages and five disadvantages of a perfectly competitive market structure

**QUESTION 9**

(b) Explain five advantages of collusive oligopoly to the member firms.

(c) Explain the term ‘price discrimination’ under monopoly.

(d) Explain the conditions that must be fulfilled in order for a monopolist to charge different prices for the same commodity in different markets.

**QUESTION 10**

(c)The data provided below represent estimated national income figure for a hypothetical economy in millions of shillings.

|  |  |
| --- | --- |
| Gross National product (at market price)  Depreciation allowances  Indirect taxes less subsidies  Business taxes  Personal income taxes  Government transfers  Retained profit | 3,992  570  524  214  763  693  230 |

(i)Net national product at market price

(ii)Net national income at factor cost

(iii)Personal income

(iv)Disposable income

(d)Outline six challenges encountered by economic planners when using the income approach to estimate the level of national income in developing countries.