

Economics Paper 2, May/June

QUESTION 1

The diagram below represents the cost and revenue situation of a firm. Use the information in the diagram to answer the questions that follow:

Cost/Revenue

OUTPUT/SALES

AC

MC

AR3=MR3

AR1=MR1

Q 1

Q 1

Q 3

Q 2

P1

O

P2

P3

AR2=MR2

QUESTION 2

The tables below show the expected revenues and projected expenditures from the budget of a hypothetical country in 1998. Use the information in the tables to answer the questions that follow:

EXPECTED REVENUE	
ITEM	AMOUNT (\$ millions)
Rents, royalties and profits	75.00
Company income tax	150.00
Customs and excise duties	300.20
Personal income tax	80.00
Fees and specific charges	60.80
Value added tax	100.00

1. Rents, Royalties and Profits	75.00	
Fees and specific charges	<u>60.80</u>	
	Total	<u>135.80</u>
(b) (i) Capital expenditure		
	Building of schools and hospitals	200.00
	Road construction	<u>180.90</u>
	Total	<u>380.90</u>
(ii) Recurrent expenditure		
	General administration	220.10
	Maintenance of foreign missions	50.00
	Transfer payments	<u>65.00</u>
	Total	<u>335.10</u>
(c) Total revenue	\$766.00 million	
Total expenditure	\$716.00 million	
Surplus	\$766 - \$716 = \$50 million	

The budget is a surplus because total revenue exceeds the total expenditure.?

QUESTION 3

Explain how the following factors will affect the demand for a commodity X:

- (a) a decrease in the price of a complement Y;**
- (b) an increase in consumers' disposable income;**
- (c) a decrease in the supply of a substitute P;**
- (d) an increase in income tax.**

A good number of candidates attempted this question and scored high marks. Most of the candidates provided appropriate answers to the question but a few of them could not adequately explain the relationship between the concepts involved.

The candidates were expected to provide the following answers to score maximum marks in this question.

- (a) If the price of commodity Y which is a complement of X decreases, other things being equal, more of Y will be demanded. The demand for X will therefore also increase.**
- (b) If disposable income (income after tax) increases; more of commodity X will be demanded, If X is a normal good.
Less of commodity X will be demanded, if X is an inferior good.**

Demand for X will not change if X is a good subject to satiety.

(c) Other things being equal, the price of P will increase. X will therefore become more attractive. Hence the demand for X will increase.

(d) Increase in income tax will reduce consumers' disposable income. Other things being equal, less of X will be demanded if X is a normal good. More of X will be demanded if X is an inferior good.

The quantity demanded of X will not change if X is a good subject to satiety.

QUESTION 4

- (a) State and explain the law of comparative cost advantage.
- (b) Give two limitations of the law as a theory of international trade.

This question attracted a good number of candidates who performed above average. However, few of the candidates only provided answer for the (a) part of the question but failed to state the limitations of the law of comparative cost advantage as a theory of international trade as required in the (b) part of the question.

Candidates were expected to include any two of the following in their answers to score maximum marks in the (b) part of this question.

- (b) Some limitations of the law are:
 - (i) It assumes that there are no transport costs.
 - 1. It assumes free mobility of factors of production.
 - 2. It assumes that production conditions (technology and the resource base of countries) will remain the same over time.
 - 3. There are two countries in the world.
 - 4. There are two commodities.
 - 5. There are no trade restrictions or barriers to trade.

QUESTION 5

- ((a) Define money.
- (b) State the three motives for holding money.
- (c) Mention two determinants of each of the motives for holding money.

This question was popular among the candidates, but most of the candidates failed to provide adequate answers for the (c) part of the question. This obviously made them to score below average marks.

These candidates did not include the following in their answers:

- (c) Determinants of the motives are:
 - 1. Transactions motive
 - (i) size of income;

- (ii) interval between wage payments;
- (iii) availability of credit;
- (iv) family size.

2. Precautionary motive

- (i) size of income;
- (ii) interval between wage payments;
- (iii) availability of credit;
- (iv) perception of risks.

3. Speculative motive

- (i) the rate of interest;
- (ii) the degree of risk aversion.

QUESTION 6

- ((a) Distinguish between economic activities and an economic system.**
(b) Explain the following terms:

- (i) production;**
- (ii) distribution;**
- (iii) consumption**

Majority of the candidates who attempted this question scored average marks. Most of the candidates only provided appropriate answers for the (b) part of the question but could not adequately, distinguish between economic activities and economic system as required in the (a) part of the question.

These candidates were expected to state thus to score maximum marks in this question.

- (a) Economic activities are what people do to earn a living. For example, people are engaged in farming and trading.
Economic system on the other hand refers to the mode of production and the distribution of goods and services within which economic activities take place.**

These candidates were expected to state the following answers for the (b) part to score good marks.

- (b) Features of a monopoly are as follows:**

- 1. there is only one seller of a product;**
- 2. entry is restricted. Barriers to entry are so severe that new firms find it**

difficult to enter the market;

- 1. it has the power to control price or output but not both;**
- 2. there is an imperfect knowledge or information about market conditions;**
- 3. there is no perfect substitute for the products sold by the monopolist.**

QUESTION 7

- (a) Define**
(i) elasticity of demand;

- (ii) price elasticity of demand.
- (b) State any four determinants of price elasticity of demand.
- (c) Draw curves illustrating
 - (i) fairly elastic demand;
 - (ii) perfectly inelastic demand.

QUESTION 8

- (a) Define market in economics.
- (b) State any three features of a monopoly.
- (c) Outline any three sources of monopoly power.

QUESTION 9

- (a) With the aid of a diagram, explain a minimum price.
- (b) State any five measures by which a minimum price for an agricultural produce can be made effective.

QUESTION 10

- (a) What is a supply schedule?
- (b) Using an example, show how a market supply schedule of a product is obtained from individual supply schedules.
- (c) State three examples of exceptional demand.

QUESTION 11

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- (b) Using an example, show how a market supply schedule of a product is obtained from individual supply schedules.
- (c) State three examples of exceptional demand.

QUESTION 12

- (a) Describe the output method of measuring the gross domestic product of a country.
- (b) How is the net national product at factor cost obtained from gross domestic product?
- (c) State two problems associated with the output method.