

2405/302
APPLIED ECONOMICS
Oct./Nov. 2017
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN APPLIED STATISTICS

APPLIED ECONOMICS

3 hours

INSTRUCTIONS TO CANDIDATES

You should have the following for this examination:

Answer booklet;

Mathematical tables/Scientific calculator.

This paper consists of EIGHT questions.

Answer any FIVE questions.

All questions carry equal marks.

Maximum marks for each part of a question are as shown.

Candidates should answer the questions in English.

This paper consists of 3 printed pages.

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

1. (a) (i) Explain five importance of elasticity of demand in decision making.
- (ii) Outline six effects of price decontrol on an economy. *TLFF - ?* (16 marks)
TLFF - ?
TLFF - ?
TLFF - ?
- (b) Table 1 shows the data on price per unit and quantity supplied of a certain product.

Table 1

Price per unit (Kshs)	14	12	10	8	6	3
Quantity supplied (units)	16,000	14,000	10,000	9,000	5,000	0

Calculate the price elasticity of supply if price decreases from Kshs 10 to Ksh 6. (4 marks)

- ~~2~~ (a) Explain five determinants of labour supply in an economy. (10 marks)
- (b) Table 2 shows the data of a national income in trillions of shillings of country 'X'.

Table 2

	Shs. Trillion
Gross Domestic Product	6720.8
Transfer payments	88.4
Exports	16.2
Business taxes	20.2
Undistributed profits of companies	12.8
Depreciation allowance	42.6
Personal income taxes	56.8
Imports	18.4
Indirect taxes less subsidies	30.5
Social security contribution	12.4

Calculate:

- (i) Gross National Product; *6720.8*
- (ii) Net National Product; *6720.8*
- (iii) Net National Income at factor cost; *6720.8*
- (iv) Personal Income;
- (v) Disposable Personal Income. (10 marks)

- 3/ (a) Explain five obstacles to industrial development in less developed countries. (10 marks)
- (b) (i) Define the term monetary policy.
- (ii) Describe four monetary instruments which are used to control and regulate money supply in the economy. (10 marks)
- 2/4 (a) Outline five differences between private and public limited companies. (10 marks)
- (b) With the aid of diagrams, explain the equilibrium position of a monopolistic competitive market structure in the short run. (10 marks)
- 5/ (a) (i) Define 'free market economic system'. (10 marks)
- (ii) Outline any four limitations of free market economic system. (10 marks)
- (b) Explain five causes of external debt/burden amongst developing countries. (10 marks)
- 6/ (a) Outline four roles of commercial banks in an economy. (8 marks)
- (b) With illustrations, distinguish between inflationary and deflationary gaps. (4 marks)
- (c) Explain four benefits of national income statistics to a country. (8 marks)
7. (a) (i) Outline five effects of rising unemployment to developing countries. (10 marks)
- (ii) Explain five policy measures that the government can adopt to deal with unemployment. (10 marks)
- (b) Explain five benefits of imposing international trade barriers to a country. (10 marks)
- 8/ (a) (i) State the law of variable proportions. (6 marks)
- (ii) Outline four assumptions of the law of variable proportions. (6 marks)
- (b) (i) Explain the property of convexity to the origin of an indifference curve.
- (ii) Using the cardinalist approach of consumer behaviour, distinguish between income and substitution effects of a price rise for a normal good. (14 marks)

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