

Answer four questions in all: one question only from Section A and any three questions from Section B.

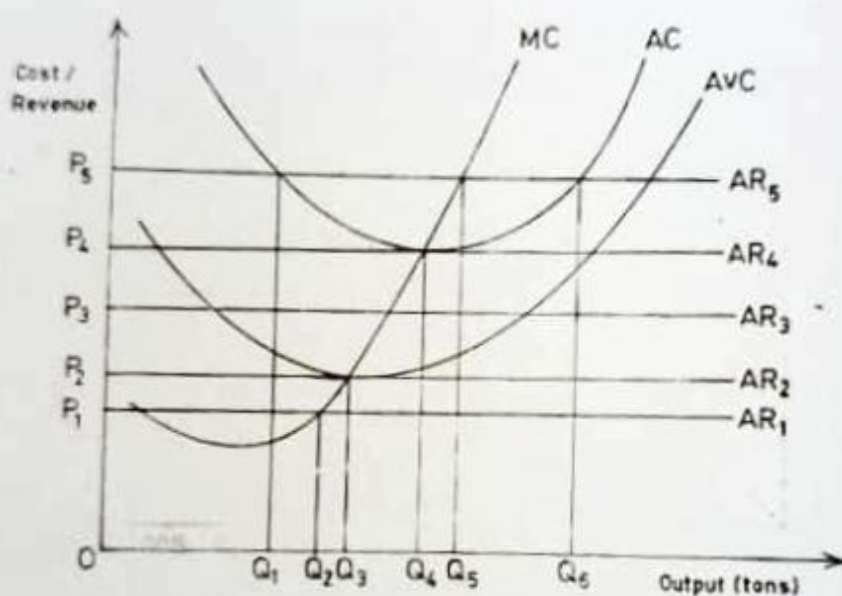
You are reminded of the importance of clarity of expression and orderly presentation of relevant materials.

All questions carry equal marks.

SECTION A

Answer one question only from this section.

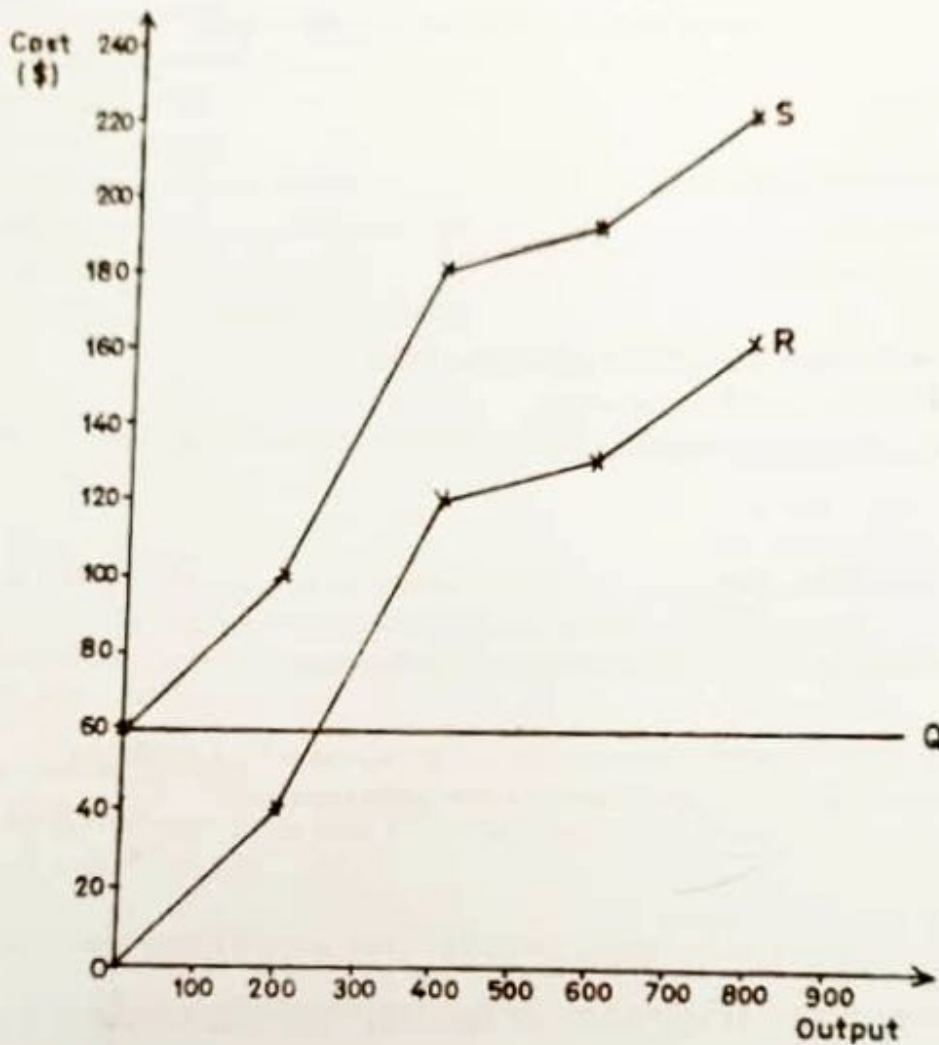
1. The diagram below shows the cost and revenue curves of a firm. Study the diagram and answer the questions that follow.



- (a) What is the output level where the firm earns super normal profit? Explain your answer. [3 marks]
- (b) What does the distance between the AC curve and AVC curve represent? [2 marks]
- (c) Calculate the total cost at the output level determined in 1(a). [3 marks]
- (d) Calculate the total variable cost when Q_3 tons of the good are produced. [3 marks]
- (e) Identify the output level where the firm:
(i) earns normal profit; [2 marks]
(ii) makes losses but should stay in production; [2 marks]
(iii) makes losses and must shut down. [2 marks]
- (f) What type of market structure is the firm operating in? Explain your answer. [3 marks]

Candidate's Name:

2. The graph below shows the cost curves of a firm. Use it to answer the questions that follow.



- (a) Identify curves Q, R and S. [3 marks]
- (b) Determine the fixed cost of the firm. [1 mark]
- (c) Calculate:
- (i) average fixed cost at 500 units; [3 marks]
 - (ii) average variable cost at 400 units; [4 marks]
 - (iii) average total cost at 800 units; [3 marks]
 - (iv) marginal cost at 200 units. [5 marks]
- (d) What does the gap between curves R and S represent? [1 mark]

SECTION B

Answer three questions only from this section.

3. (a) Define *utility*. [2 marks]
- (b) Explain the following terms:
(i) *total utility*; [4 marks]
(ii) *marginal utility*. [4 marks]
- (c) State the conditions for consumer equilibrium when:
(i) a **single** commodity is consumed; [5 marks]
(ii) **two** commodities are consumed. [5 marks]
4. (a) Define *equilibrium price*. [2 marks]
- (b) Explain **three** effects of fixing a minimum wage in a country. [9 marks]
- (c) With the aid of a diagram, show how the market adjusts to the equilibrium position if the price of a good falls below the equilibrium level. [9 marks]
5. (a) Define a *share* of a company. [2 marks]
- (b) Distinguish between a *consumer co-operative* and *producer co-operative*. [6 marks]
- (c) Explain the following features of state enterprises:
(i) *source of finance*;
(ii) *ownership*;
(iii) *control*;
(iv) *aim of establishment*. [12 marks]
6. (a) Define the following concepts:
(i) *national income*; [2 marks]
(ii) *transfer payment*. [2 marks]

Candidate's Name:.....

(b) Classify the following items into *transfer payments* and *non-transfer payments*:

- (i) a donation to an orphanage;
- (ii) unemployment benefit;
- (iii) a doctor's salary;
- (iv) a scholarship grant;
- (v) payment for laundry services;
- (vi) money given to a grandfather as a gift;
- (vii) payment to a road contractor;
- (viii) allowances to members of parliament.

[8 marks]

(c) State **four** difficulties encountered in calculating national income.

[8 marks]

7. In some cases, inflation may occur in the form of a slow, but sustained increase in prices that may not be noticed by most individuals. Such continuous price increases may be as a result of an increased demand for commodities that is not matched by a corresponding increase in the supply of commodities.

In line with the above statement,

(a) what is the **correct** term for the type of inflation described as, "slow, but sustained increase in prices"?

[2 marks]

(b) explain any **three** factors that can lead to the increased demand for commodities.

[9 marks]

(c) outline any **three** reasons for which the supply of commodities may **not** increase to match demand.

[9 marks]

8. (a) Differentiate between the following terms:

- (i) *devaluation of currency* and *depreciation of currency*;
- (ii) *current account* and *capital account*.

[4 marks]

[4 marks]

(b) Explain **four** ways by which a balance of payments deficit can be financed in the short-term.

[12 marks]

END OF PAPER