December 2012

QUESTION ONE

a) Explain the term "demand curve". (2 marks)
b) Identify two reasons why demand curve slopes downwards. (4 marks)
c) Analyze the importance of elasticity of demand in economic decision making. (6 marks)
d) Explain eight determinants of money supply in an economy. (8 marks)

(Total: 20 marks)

QUESTION TWO

a) Highlight five factors that are likely to influence the cost behavior of a manufacturing firm. (5 marks)
b) With the aid of a well labeled diagram, illustrate the relationship between marginal cost and average cost as applied in production theory. (7 marks)
c) The demand function of a certain firm is given as follows:

\[ Q + 10P = 20 \]

Where: Q is the level of output
P is the unit price.

Required:
   i. The average revenue function (2 marks)
   ii. The total revenue function (2 marks)
d) Outline four salient features of isoquant curves. (4 marks)

(Total: 20 marks)

QUESTION THREE

a) Using a diagram, explain the law of diminishing marginal utility. (6 marks)
b) Explain four limitations of law equi marginal utility. (8 marks)
c) Explain six advantages of economic integration to a member state. (6 marks)

(Total: 20 marks)

QUESTION FOUR

a) Distinguish between "devaluation" and "depreciation" of a currency. (4 marks)
b) Explain four conditions that must hold for devaluation of a currency to be effective in developing countries. (10 marks)
c) Summarize the role of the industrial sector in economic development. (6 marks)

(Total: 20 marks)
QUESTION FIVE

a) Using an example, determine the relationship between the multiplier and marginal propensity to consume. (4 marks)

b) Explain four factors that limit the effectiveness of the multiplier in developing countries. (8 marks)

c) Outline four causes of wage differentials between the agricultural and the industrial based occupations. (8 marks)

(Total: 20 marks)

QUESTION SIX

a) Using the Phillips curve, explain the theoretical relationship between inflation and unemployment. (5 marks)

b) Explain why unemployment is a major issue in developing countries. (10 marks)

c) With the aid of an appropriate diagram, explain why a loss-making firm under perfect competition continues in the production of goods and services in the short run. (5 marks)

(Total: 20 marks)

QUESTION SEVEN

a) Justify the need to estimate the national income of a country. (6 marks)

b) Outline six challenges encountered by economic planners when estimating the national income in developing countries. (6 marks)

c) Describe four policy measures that developing countries could adopt to reduce regional imbalances. (8 marks)

(Total: 20 marks)