2405/302
APPLIED ECONOMICS
Oct./Nov. 2009
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*

Answer any FIVE of the EIGHT questions in this paper.
All questions carry equal marks.
Maximum marks for each part of a question are as shown.

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.

Turn over

1. (a) Explain **five** ways in which middlemen may assist in stabilization of prices for agricultural commodities. (10 marks)

   (b) With the aid of a diagram, explain what happens to equilibrium price and equilibrium quantity as a result of an increase in the demand of a commodity. (10 marks)

2. (a) Explain **six** measures that may be taken by the Central Bank of Kenya to reduce excess money supply in the economy. (12 marks)

   (b) Outline **four** ways that may be used by the Government in borrowing funds to finance public expenditure. (8 marks)

3. (a) With the aid of a diagram, show the price and output that a monopoly should have in order to make normal profits. (10 marks)

   (b) The table below contains population and national income figures of two countries.

Country	Population Ksh (Millions)	National Income Ksh(Millions)
P	2400	30
Q	800	12

   Using the information in the above table:

   (i) Calculate per capita income of each country; (4 marks)
   (ii) Explain **three** limitations of using per capita income as a measure of standard of living. (6 marks)

4. (a) Explain **five** benefits that may accrue to a firm that practises division of labour in production process. (10 marks)

   (b) Outline **five** differences between a Public Limited Company and a Private Limited Company. (10 marks)

5. (a) Outline **six** consequences of a rapidly growing population in a country. (12 marks)

   (b) Discuss **four** indicators of underdevelopement common in Less Developed Countries (LDCs). (8 marks)

6. (a) Outline **four** constraints that may hinder the implementation of Harrod-Domar Growth Model in Less Developed Countries (LDCs). (8 marks)

   (b) Explain **six** measures that may be taken to correct an adverse balance of payments in developing countries. (12 marks)

7. (a) Explain **five** benefits that Kenya is likely to get from the recently revived East African Union. (10 marks)

   (b) Outline **five** policies that Kenya may adopt to improve the welfare of her people. (10 marks)

8. (a) Agriculture contributes highly to the Gross Domestic Product in Kenya. Outline **five** strategies that may be taken to improve productivity in this sector. (10 marks)

   (b) With the aid of a diagram, explain what happens to price and income as a result of expansionary monetary and fiscal policies by the Government. (10 marks)