2405/302 APPLIED ECONOMICS Oct./Nov. 2016 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;
Scientific calculator.
This paper consists of EIGHT questions.
Answer any FIVE questions in the answer booklet provided.
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.

(a) (i) Explain four reasons for the downward sloping of the demand curve. Outline any two exceptions of the law of demand. (ii) (10 marks) Explain five reasons for the disequilibrium in the balance of payments for developing (b) countries. (10 marks) With the aid of labelled diagrams, distinguish between price floors and price (a) (i) (iii) Outline two effects of price decontrol to an economy. (10 marks) Explain five roles of commercial banks in achieving commercial development in a (b) country. (10 marks) (a) Explain five instruments used to restrict international trade. (10 marks) With the aid of diagrams, explain the equilibrium position of a perfectly competitive (b) firm in the short run. (10 marks) (a) Explain any five types of unemployment in developing countries. (10 marks) (b) (i) Define the term taxation. (ii) Explain any four principle functions of taxation in a country. (10 marks) With the aid of a diagram, describe indifference curve. (a) (i) With the aid of sketches, explain the nature of indifference curves for the perfect (ii) substitutes and for complementary goods. (10 marks) (b) Explain five causes of inequality in the distribution of wealth amongst individuals. (10 marks) (i) (a) Define liquidity ratio as applied in Economics. (ii) Highlight three motives of holding money in cash form. (8 marks) (b) Table 1 represents economic transactions for hypothetical economy 'Q' in billions of shillings. Table 1 Total output Intermediate purchases Kshs. Billions Kshs. Billions Agriculture 30 10

Kshs. Billions

Agriculture

Manufacturing

70

Services

55

25

9

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(i) Calculate the Gross National Product of this economy using the value added (ii) If depreciation and indirect taxes are 8 billion and 7 billion respectively, find the Net Domestic Product at both market prices and factor cost. Distinguish between multiplier and marginal efficiency of capital. (iii) (12 marks) (a) Explain five obstacles to agricultural development in less developed countries. (10 marks) (b) Describe the following as used in Economics: production possibility curve; (1) utility: (if) comparative cost theory; (iii) devaluation policy; price discrimination. (10 marks) (a) Define economies of scale. (i) Explain four types of internal economies of scale. (ii) (10 marks) (b) Explain five factors that may hinder economic planning in a developing country. Manager and to Manager the Contin 6 looney militaries will THIS IS THE LAST PRINTED PAGE. Sortesanos depict were a rome S) Water Calemany The day of low D) begins your on fingues In 2405/302 3 Oct./Nov. 2016