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2405/302  
APPLIED ECONOMICS  
Oct./Nov. 2018  
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 in the answer booklet provided.*

*All questions carry equal marks.*

*Maximum marks for each part of a question are indicated.*

*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) Differentiate between competitive demand and joint demand. (4 marks)
- (b) (i) Define unemployment.  
(ii) Explain **three** types of unemployment. (7 marks)
- (c) With the aid of diagrams, explain the following types of demand:
  - (i) perfectly inelastic; *high price*
  - (ii) elastic;
  - (iii) unitary elasticity. (9 marks)



2 ✗

- (a) Explain **five** causes of cost push inflation in a country. (10 marks)
- (b) (i) Distinguish between absolute advantage and comparative advantage as used in international trade.  
(ii) Explain **four** limitations of the theory of comparative advantage. (10 marks)

3 ✓

- (a) (i) Explain **four** conditions which are necessary for price discrimination by a monopolist.  
(ii) Using illustrations, explain the short-run equilibrium level of output and price for a firm which operates under a monopoly. (16 marks)

4 ✓

- (b) Outline **four** roles of commercial banks in an economy. (4 marks)
- (a) Outline **four** determinants of demand for labour in an economy. (4 marks)
- (b) Explain **five** factors that may limit effective application of monetary policy in developing countries. (10 marks)
- (c) Using illustrations, distinguish between 'shifts in supply' and 'movement along the supply curve'. (6 marks)

✗

- (a) (i) With the aid of a diagram, explain the term 'diminishing marginal utility'.  
(ii) Outline **four** exceptions to the law of diminishing marginal utility. (8 marks)
- (b) With the aid of indifference curves, distinguish between the income and substitution effects of a change in price of a normal good. (12 marks)



6. (a) Explain **five** causes of disequilibrium in the balance of payments in developing countries. (10 marks)

(b) Explain **five** factors that may hinder industrial development in a developing country. (10 marks)

(a) Explain **five** merits of indirect taxes in an economy. (10 marks)

(b) Explain the following terms as used in economics:

(i) optimum population;

(ii) over-population;

(4 marks)

(c) Table 1 shows the transactions in a certain hypothetical economy, in billions of shilling.

Table 1

| Sector        | Intermediate purchases | Total output |
|---------------|------------------------|--------------|
| Manufacturing | 26,000                 | 55,000       |
| Services      | 44,000                 | 72,000       |
| Agriculture   | 63,000                 | 110,000      |

Additional information:

Indirect taxes and depreciation amount to Ksh 22,000 billion and Ksh 30,000 billion respectively.

Calculate:

(i) gross national product using the value added approach;

(ii) net domestic product at market price;

(iii) net domestic product at factor cost.

(6 marks)

(a) (i) Distinguish between economic growth and economic development.

(ii) Outline **five** indicators of economic development in a country.

(9 marks)

(b) (i) Define economic planning.

(ii) Explain **five** problems encountered by developing countries in their attempts to put up successful economic planning.

(11 marks)

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