ECONOMICS P1

SECTION A: (20 MARKS)

1. (a)(i) Distinguish between **reserve price** and **price support**. (02 marks)

(ii) State any two determinants of reserve price in an economy. (02 marks)

(b) (i) Distinguish between **Take home pay** and **Real income.** (02 marks)

(ii) State any **two** determinants of Real income in an economy. (02 marks)

(c) (i) Differentiate between **Transfer earnings** and **Economic rent**. (02 marks)

(ii) Given that a factor of production receives transfer earnings of **shs 400,000** and its economic rent is one and half times its transfer earnings. Calculate the factor's actual earnings. (02marks)

(d) (i) Distinguish between **autonomous consumption** and **induced consumption**. (02 marks)

(ii) Mention any **two** factors that limit consumption in an economy. (02 marks)

(e) (i) What is meant by a **perspective plan**? (01 mark)

(ii) State any **three** qualities of a good development plan. (03 marks)

SECTION B: (80 MARKS)

2. (a) Explain the shortcomings of price mechanism in an economy. (10 marks)

(b) What policy measures can be used to minimize the shortcomings of price mechanism? (10 marks)

3. (a) Describe the basis of monopoly power in an economy. (12 marks)

(b) How does a monopolist maximize profits in the short run? (08 marks)

4. (a) Distinguish between **comparative advantage** and **absolute advantage** of international trade (06 marks)

(b) What are the limitations of the law of comparative cost advantage to developing countries? (14 marks)

5. (a) Account for the low levels of national income in developing countries? (10 marks)

(b) What measures have been taken to improve on national income in developing countries (10 marks)

6. (a) Explain the rationale of development planning in an economy. (10 marks)

(b) Account for the failure of development planning in developing countries. (10 marks)

7. a) How do commercial banks create credit in an economy? (8 marks)

b) Explain the factors which limit credit creation in an economy. (12 marks)

END