

SECTION A (20 MARKS)

Answer all parts of this question.

1. (a) (i) Distinguish between the **multiplier** and **accelerator** principle as used in economics. (02 marks)
- (ii) Given that the Marginal Propensity to Consume (MPC) is 80% and the change in income is Shs 1,000,000. Calculate the:
- Multiplier. (01 mark)
 - Change in investment. (01 mark)
- (b) (i) What is meant by **Unbalanced Growth Strategy** of economic development? (01 mark)
- (ii) Mention any **three** limitations of the Unbalanced Growth Strategy of development in an economy. (03 marks)
- (c) (i) Distinguish between **money supply** and **demand for money**. (02 marks)
- (ii) Mention **two** motives of the demand for money. (02 marks)
- (d) (i) Differentiate between **tax avoidance** and **tax evasion**. (02 marks)
- (ii) Give any **two** reasons for tax evasion in an economy. (02 marks)
- (e) Suggest any **four** policies that can promote the growth of the private sector in an economy. (04 marks)

SECTION B (80 MARKS)

Answer any four questions from this section.

2. (a) Explain the merits and demerits of the price mechanism. (14 marks)
- (b) Suggest measures that should be taken to control the defects of the price mechanism in an economy. (06 marks)
3. (a) Study the table below and answer the questions that follow.

Output (kgs)	0	5	10	15	20
Total cost (Shs)	2000	3500	5600	6000	7200

Calculate:

- (i) The average fixed costs when output is 5 kgs. (01 mark)

- (ii) The average variable costs when output is 15 kgs. (01 mark)
 - (iii) The marginal cost when output is 20 kgs. (01 mark)
 - (iv) Given that marginal revenue is shillings 420, at what output does the firm maximize profits? (01 mark)
- (b) Why may a firm continue operating even when it does not cover its fixed costs of production? (16 marks)
4. (a) What are the causes of income inequalities in an economy? (08 marks)
- (b) Examine the implications of income inequalities in an economy. (12 marks)
5. (a) Distinguish between a **minimum wage** and a **subsistence wage**. (04 marks)
- (b) Explain the merits and demerits of fixing a minimum wage in an economy. (16 marks)
6. (a) Differentiate between **free trade** and **trade protectionism**. (04 marks)
- (b) Assess the effects of a free trade policy in an economy. (16 marks)
7. (a) Describe the features of a good economic development plan. (06 marks)
- (b) Explain the factors that limit the formulation of good economic development plans in developing countries. (14 marks)