b) With the aid of an appropriate diagram, differentiate between consumer surplus and producer surplus. [6 Marks]

QUESTION FOUR

a) Explain using a diagram, a firm making normal profits under perfect competition (9 Marks)

b) Suppose the market demand and supply equations for dry beans in Luanda market are given as follows

$p = 11 - \frac{1}{2}q$ ……………………… *demand* $11-6=5$ $11 - \frac{1}{2}q = 1 + \frac{1}{3}q$

$p = 1 + \frac{1}{3}q$ ……………………… *supply* $1+4=5$ $10 = (\frac{1}{2}+\frac{1}{3})q$ $60 = (3+2)q$ $12 = q$

Find the equilibrium price (p) and quantity (q) is the quantity (6 marks)

QUESTION FIVE

a) Explain three fundamental economic questions that must be answered in order to solve economic problems satisfactorily in any economic system. (6 marks)

b) Most coffee farmers in Kenya use labour as a variable factor of production, with reference to the three stages of production, explain using a diagram the most profitable stage you would recommend to coffee in Kenya (9 marks)

QUESTION SIX

a) Firm X total cost (in millions) schedule is given in the following table

Output(units)	0	1	2	3	4	5	6	7	8
Total cost(KES)	40	120	170	180	210	260	340	440	550

80 + 50 + 10 + 30
50 + 80 + 100
110

(i) What is the total fixed cost of this firm? (1 Marks)

(ii) Calculate the Average Fixed Cost (AFC), Average Variable Cost(AVC), Average Total Cost(ATC) and Marginal Cost (MC) (8 Marks)

b) Explain three exemptions to the law of demand. (6 Marks)

QUESTION ONE: (COMPULSORY)

a) The county government of Kisumu decides to lower the parking fees within the central business district from ksh. 100 per day to ksh. 50 per day. Explain the effect of this policy on:

i. The number of vehicle owners desiring to park their cars within the central business district. [2 Marks]

ii. The amount of time it will take to find a parking place. [2 Marks]

iii. If the number of vehicles parked in the central business increased from 5000 to 7000 on a particular day, determine the price elasticity of demand for parking space and comment on the nature of commodity. [6 Marks]

b) Explain why oligopolies have kinked demand curves. [4 Marks]

c) How do centralized economies differ from mixed economies? [4 Marks]

d) Explain the shape of the labour supply curve. increases with increase in wages [3 Marks]

e) Distinguish between the long-run and the short run production periods. [4 Marks]

QUESTION TWO ✓

a) The Competition Authority of Kenya is a body mandated by the government to regulate and control competition malpractices among the business community that can lead to monopoly power in Kenya .

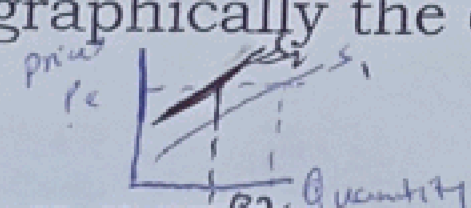
(i)Discuss three sources of monopoly power in Kenya [6 Marks]

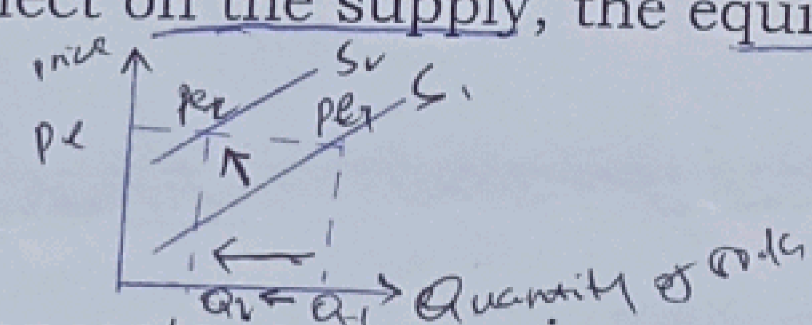
- business amalgamation
- legislation

ii) Explain four ways by which the Kenya government can control monopoly power [4 marks]

- Encouraging privatisation
- Specialization
- Buying shares from big firms
- Legislation
- refusing offering trading licence.
- Introducing bottlenecks policies

b) Suppose the government introduces fuel tax which is collected from sellers. Explain graphically the effect on the supply, the equilibrium price and quantity of soda. [5 Marks]





QUESTION THREE

a) Explain the following concepts in economics:

i. Production possibility curve. ✓ [4 Marks]

ii. Economic rent. [2 Marks]

iii. Rationality assumption of the consumer. [3 Marks]