

The paper has two sections – Section A and Section B. Section A is compulsory. Choose only 4 (four) questions in Section B.

SECTION A: (20 marks)

1. a) i) Define “capital” (1 mark)
 ii) Give three traits of capital as a factor of production. (3 marks)
- b) Distinguish between:
 - i) Quasi rent and economic rent. (2 marks)
 - ii) Footloose industries and weight losing industries. (2 marks)
- c) i) Distinguish between cost of living and standard of living. (2 marks)
 ii) Explain the relationship between cost of living and the general price level in an economy. (2 marks)
- d) Show how average cost pricing and a lumpsum tax are used to control monopoly power. (4 marks)
- e) i) What is meant by marginal product? (1 mark)
 ii) Illustrate the relationship between Marginal Product, Average Product and Total Product of a firm. (3 marks)

SECTION B: (80 marks)

2. a) Explain why the capital of a firm tends to be immobile in short run. (6 mks)
 b) Examine the impact of Public limited companies in an economy. (14 marks)
3. a) Distinguish between increase in supply and increase in quantity supplied. (4 marks)
 b) Account for decrease in supply of a commodity in an economy. (16 marks)
4. Study the table below and answer the questions that follow (Use a table for your answers)

Output in boxes	Total cost in \$ (Dollars)
0	2000
1	3200
2	4000
3	4600
4	5000
5	5250
6	6000
7	7000

- i) Calculate the marginal cost for all levels of output. (4 marks)

- ii) Determine the average variable cost for all output levels. *(4 marks)*
 - iii) What are the average fixed costs of the firm for all levels of output
(4 marks)
 - iv) If the firm's marginal revenue for output is \$750 what is the equilibrium output of the firm (explain your answer). *(4 marks)*
 - v) Explain why the average cost curve of a firm are "U" shaped in short run and long run. *(4 marks)*
5. a) Explain the benefits of delocalization of firms in an economy. *(6 marks)*
- b) Examine the merits and demerits of localization of firms in an economy.
(14 marks)
6. a) How does a firm in a perfectly competitive market determine output, price and profits in the long run. *(8 marks)*
- b) Examine the Implications of perfect competition in an economy. *(8 marks)*
7. a) Differentiate between aggregate demand and aggregate supply. *(4 marks)*
- b) Explain six determinants of aggregate demand. *(6 marks)*
- c) Explain the measures that can be used to increase the level of GDP of an economy. *(10 marks)*