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## CERTIFIED ACCOUNTING TECHNICIAN

### LEVEL 1 EXAMINATION

#### L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT

**FRIDAY: 13 JUNE 2014**

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#### **INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- Show all your workings

### QUESTION ONE

- (a) Distinguish between money, near money and money substitutes. **(6 Marks)**
- (b) Identify and explain the functions of money. **(6 Marks)**
- (c) Explain the reasons for liquidity preference for money. **(4 Marks)**
- (d) Explain any four qualities of money. **(4 Marks)**

**(Total: 20 Marks)**

### QUESTION TWO

- a) Define the concept of “national income” **(2 Marks)**
- (b) Briefly explain how national income is measured. **(6 Marks)**
- (c) Give reasons why it is difficult to compare the national income of one country with the national income of another country. **(6 Marks)**
- (d) Outline the factors that determine the level of national income of a country. **(6 Marks)**

**(Total: 20 Marks)**

### QUESTION THREE

Citing practical examples, explain the differences between the following types of unemployment listed below and how each affects economic growth.

- a) Seasonal and casual unemployment. **(7 Marks)**
- b) Disguised and unproductive unemployment. **(7 Marks)**
- c) Outline policies which if implemented would alleviate the problem of unemployment. **(6 Marks)**

**(Total: 20 Marks)**

### QUESTION FOUR

- (a) (i) Distinguish between price floors and price ceilings. **(4 Marks)**
- (ii) Explain the consequences of each situation in (a) (i) above. **(8 Marks)**
- (b) Illustrate the determinants of equilibrium market price. **(4 Marks)**
- (c) Outline the reasons why agricultural prices are more unstable compared to prices of industrial products. **(4 Marks)**

**(Total 20 Marks)**

### QUESTION FIVE

- (a) There are 10,000 identical consumers in the market for commodity X, each with a demand function given by  $Q_{dx} = 12 - 2P_x$  and 1,000 identical producers of commodity X, each with a function given by  $Q_{sx} = 20P_x$ .

where:  $Q_{dx}$  is the quantity demanded of commodity X.

$Q_{sx}$  is the quantity supplied of commodity X.

$P_x$  is the price of commodity X.

**Required:**

- i) Obtain the market demand and the market supply functions of commodity X. **(4 Marks)**
- ii) Obtain market demand and market supply schedules of commodity X and determine the equilibrium price and equilibrium quantity. **(6 Marks)**
- (b) Illustrate with a diagram and explain the concept of the circular flow of income. **(10 Marks)**

**(Total: 20 Marks)**

**QUESTION SIX**

Write brief notes on the following:

- (a) Scarcity and choice. **(4 Marks)**
- (b) Diminishing marginal utility. **(4 Marks)**
- (c) Price elasticity of demand. **(4 Marks)**
- (d) Income elasticity of demand. **(4 Marks)**
- e) Substitution and income effects of a price change. **(4 Marks)**

**(Total: 20 Marks)**

**QUESTION SEVEN**

- (a) Identify and explain options available for raising funds to finance government activities. **(4 Marks)**
- (b) With regard to fiscal policies, discuss short-run measures a government of a developing country may adopt to ensure sustainable economic growth. **(10 Marks)**
- (c) Outline the reasons for slow economic growth of a developing country. **(6Marks)**

**(Total: 20 Marks)**

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**End of question paper**

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