INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE sections.

2. Each section consists of TWO questions. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.
SECTION I

Answer ONE question from this section.

1. (a) (i) With the aid of a diagram showing education and medical services, explain what is meant by ‘production possibilities frontier (PPF)’. [12 marks]

(ii) State TWO assumptions on which the PPF is based. [4 marks]

(b) Using the production possibilities frontier, discuss the following:

(i) Scarcity

(ii) Choice

(iii) Increasing Opportunity Cost [18 marks]

(c) (i) Define the following terms:

a) Allocative Efficiency

b) Production Efficiency [6 marks]

(ii) Using the production possibilities frontier, illustrate the concepts of ‘efficiency’ and ‘allocative efficiency’. [4 marks]

(d) State how the following will affect the production possibilities frontier:

(i) Decrease in resources

(ii) Improvement in technology [6 marks]

Total 50 marks

2. (a) Using a demand and supply diagram, explain how a rapid economic expansion in China and India may affect EACH of the following dimensions of the market for oil, everything else remaining the same.

(i) Demand

(ii) Supply

(iii) Quantity bought and sold [38 marks]

(iv) Price

(b) Analyze the likely effects of an increase in oil prices on the market for food. [12 marks]

Total 50 marks

GO ON TO THE NEXT PAGE
SECTION II

Answer ONE question from this section.

3. (a) Compare and contrast THREE MAIN characteristics of perfect competition and monopolistic competition. [12 marks]

(b) Compare and contrast the conduct of perfect competition and monopolistic competition with respect to:

(i) Competitive behaviour [6 marks]

(ii) Output determination [6 marks]

(iii) Pricing behaviour [6 marks]

(c) Evaluate the performance of a perfect market and a monopolistic market in terms of profit and efficiency. [20 marks]

Total 50 marks

4. (a) Using suitable examples, explain how EACH of the following causes the market allocation of resources to be inefficient:

(i) Public good [12 marks]

(ii) Externalities [12 marks]

(iii) Asymmetric information (moral hazard and adverse selection) [15 marks]

(b) (i) Explain what is meant by a ‘natural monopoly’. [5 marks]

(ii) State why a natural monopoly uses resources inefficiently if unregulated. [3 marks]

(c) Identify ONE pricing rule that a regulator may apply, and state how it may be used to achieve efficiency. [3 marks]

Total 50 marks
SECTION III

Answer ONE question from this section.

5. (a) Using a labour demand and a labour supply diagram explain how the share of income going to labour is determined. [14 marks]

(b) Discuss the division of the reward of labour into transfer earnings and rent. [10 marks]

(c) (i) Explain what is meant by the term ‘derived demand’. [5 marks]

(ii) Explain why the price of land in the busy commercial district of a major city is likely to be higher than the price of land in other areas. [5 marks]

(d) Discuss the relationship between factor rewards and cost of production of poultry on a medium to large size farm. [16 marks]

Total 50 marks

6. (a) Compare and contrast the concepts of ‘relative poverty’ and ‘absolute poverty’. [10 marks]

(b) Explain how the basic needs approach to poverty differs from the poverty line approach. [16 marks]

(c) Explain how the government may use the following to reduce absolute poverty and inequality:

(i) Taxes and subsidies

(ii) Public housing

(iii) Education and training [19 marks]

(d) Determine which of the methods (i), (ii) or (iii) in (c) above, is more sustainable. Justify your answer. [5 marks]

Total 50 marks

END OF TEST