**S4 EXAM**

**SECTION A: ALL QUESTIONS ARE COMPALSORY /(55MARKS)**

1)Choose the best answer.

A. Which of the following is an assumption of Production Possibility Frontier? **(1mark)**
a) Resources are not fully employed.
b) Resources are not equally efficient for production of the two goods.
c) Resources are not efficiently employed.
d) Resources available are not fixed.

B. Which of the following can be referred to as ‘point of satiety’? **(1mark)**
a) Marginal Utility is negative

b) Marginal utility is zero

c) Total Utility is raising
d) Total Utility is falling

C. When marginal utility is zero, total utility is : **(1mark)**

a) Zero

b) Minimum

c) Maximum

d) Negative

D. When the Average Product (AP) is maximum, the Marginal Product (MP) is :( Choose the correct alternative) **(1mark)**

(a) Equal to AP

(b) Less than AP

(c) More than AP

(d) Can be any one of the above

E. Which of the following is a variable cost?**(1mark)**

a) Salary of permanent staff

b) License fees

c) Rent of premises

d) Wages

2 (a) Differentiate between final and intermediate goods and give an example of each. **(2marks)**

 (b) ‘A Machine’ purchased is always a final good.’ How far do you agree with this statement? **(3marks)**

3)It is our hope that after learning about basic principles of economics, you are applying them in your daily life. Giving examples to support your answer, explain how they are useful to you. **(4marks)**

4) Explain how the following affect the supply of a commodity.

(a) Price of factor inputs. **(2marks)**

(b) State of technology. **(2marks)**

(c) Government taxation policy. **(2marks)**

5) Present graphically the following verbal situation:

Due to the technological improvement, there is a rise in firm productivity shown as a shift of the aggregate supply curve to the right and this causes a rise in Real GDP. Note that there is also a fall in the price level while the aggregate demand remains constant. **(5marks)**

6) Based in what you have leant in consumer theory, explain how

1. Consumer’ s tastes and preference. **(2marks)**
2. Future expectations. **(3marks)**

Determine individual demand.

7)Suppose the demand and supply curves of a Commodity-X are given by the following two equations simultaneously:

Qd=200-P

QS=50+2P

1. Find the equilibrium price. **(2marks)**
2. Find the equilibrium quantity. **(2marks)**

8) The table below shows the demand and supply of the coconuts on the market where prices are governed by the market forces. Read it and answer the following questions.

|  |  |  |
| --- | --- | --- |
| Price per kg of groundnuts(FRW)  | Quantity demanded of groundnuts(kg)  | Quantity supplied groundnuts (kg)  |
| 600 | 70 | 35 |
| 700 | 65 | 50 |
| 800 | 55 | 55 |
| 900 | 45 | 75 |
| 1000 | 30 | 100 |

1. Use the information in the table above to illustrate the demand and supply curves on the same diagram. **(3.5marks)**
2. On your graph identify equilibrium point (E), equilibrium (PE andequilibrium quantity (QE). **(1.5marks)**

9 (a) Explain how the price mechanism answers the Central economic problem “how toproduce.” **(2marks)**

(b) Price mechanism leads to some rights. Explain any three of these rights. **(3marks)**

10) Study the table below and answer the questions that follow:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Number of workers (L) | Land (fixed in hm2)  | Total product (TP) | Average product(AP) | Marginal product (MP) |
| 1 | 200 | 4 | 4 | 4 |
| 2 | 200 | 14 |  |  |
| 3 | 200 | 25.5 |  |  |
| 4 | 200 | 40 |  |  |
| 5 | 200 | 60 |  |  |
| 6 | 200 | 72 |  |  |
| 7 | 200 | 77 |  |  |
| 8 | 200 | 80 |  |  |
| 9 | 200 | 81 |  |  |
| 10 | 200 | 75 | 7.5 | -6 |

1. Fill the gaps for AP and MP columns (**4marks)**
2. Identify the point of
3. diminishing marginal returns. **(1mark)**
4. diminishing average returns. **(1mark)**

11) Country P is a developing country. It experiences price fluctuation of agricultural products. The meeting of Commercial, Economics and Finance authorities has proposed Minimum price legislation (price floor) as a strategy of controlling prices.

Explain at least 6 problems economic problems that may arise from the proposed strategy once it is implemented. **(6marks)**

**SECTION B: ATTEMPT ANY THREE QUESTIONS ONLY (45marks)**

12) China and USA are actually the highest developed economies. Product A is sold in both countries but in USA its price is higher than its price in China. What could be the reasons why the price of product A is higher in the USA than in China. **(15marks)**

13) Paul has established a firm producing clothes near our locality. Before that he had bought land on which to construct the factory at 15,000,000 Frw. Construction of the firm building cost 20,000, 000Frw. He bought the raw material at 12,000,000FRW and paid 12000Frw for their transport. He has also bought machinery at 100,000,000FRW. The firm produces clothes for the local and urban people. The firm is very important but, its activities have led to noise, air and water pollution in our locality.

 a) From the passage,

 (i) What is meant by “implicit costs?” **(2marks)**

 (ii) What are explicit costs? Explain your answer. **(2marks)**

1. Calculate the total fixed cost. **(1mark)**

 (iv)Calculate the total variable cost. **(1mark)**

 (v)Calculate the average variable cost. **(1mark)**

 (vi) Calculate the average fixed cost. **(1mark)**

b) After a period of time, John comes and establishes a firm producing clothes. After a short period, John asks Paul to merge their firms and Paul refuses. Discuss at least seven reasons that may have pushed Paul to refuse John’s proposal.**(7marks)**

14) A producer of cake sells them to 80Frweach. He wants to lower the price from 80 Frw to 60Frw expecting the sales to increase from 1500 cakes to 2500 cakes per week.

a) Calculate the price elasticity of demand for a cake. **(2marks)**

b) Is this expectation profitable for the cake producer? Explain your answer.**(3marks)**

c) Using a graphical representation shows the profitability of this price decrease. **(3marks)**

d) Mathematically, show the profitability of the cake producer expectation. **(3marks)**

e) Government needs to have the knowledge of elasticity of demand. Using at least two arguments, support this affirmation. **(4marks)**

15) Gafaranga is an entrepreneur having a tailoring firm where production is done in different groups whose number is in line with the types of clothes they produce. Some produce T-shirts, dresses, sweaters, trousers, shirts etc. To produce each type of cloth, different individuals are hired for each task.

What do think are **advantages** and **disadvantages** of the organization of Gafaranga‘s firm production process? **(15marks)**

16) Gakire is an entrepreneur having a firm transforming maize into flour. His firm is located between an urban and a rural area; it is the only firm transforming maize into flour in the region. Gakire manages the firm himself which is working since 2010. In 2012 alongside the firm, farmers have begun to grow Maize and are getting more maize products due to the use of fertilizers bought nearby.

Finding that his product is liked and does not satisfy the market demand, GAKIRE expanded his firm and increased production. He also bought a database technology to facilitate stock control, transport and distribution.

1. i) identify the factor that is pushing the entrepreneur to expand his firm. **(1mark)**

ii)What is the internal economy of scale that the firm enjoys? **(1mark)**

1. Explain why after 2012 the firm was able to reduce the price of flour without making a loss. **(5marks)**
2. It is clear that Gakire’s Business makes profits for him. How do you thing the profits made are helpful in his production? **(8marks)**