THE UNITED REPUBLIC OF TANZANIA
NATIONAL EXAMINATIONS COUNCIL
ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

151/1

ECONOMICS 1
ECONOMIC THEORY
(For Both School and Private Candidates)

Time: 2½ Hours   Tuesday 04 May 2004 p.m.

Instructions

1. This paper consists of sections A and B.

2. Answer **five (5)** questions, choosing at least **two (2)** questions from each section.

3. All questions carry equal weight.

4. Cellular phones are **not** allowed in the examination room.

5. Write your Examination Number on every page of your answer booklet(s).

1. (a) What is capital consumption?
   (b) Outline the probable causes of capital consumption.

2. Explain the following:
   (a) Transfer earnings.
   (b) Quasi – rent.
   (c) Time preference theory.
   (d) Liquidity preference theory.

3. Outline the salient features of a mixed economy. Can Tanzania be sighted as an example of a mixed economy?

4. (a) State the law of demand and outline its basic assumptions.
   (b) Derive the demand function expressing this law.

5. Goods A and B are substitutes. Discuss the effects of improvement in technology which lead to increased supply of one of the two goods.

SECTION B

6. (a) Differentiate between monopoly and monopsony.
   (b) Outline the advantages and disadvantages of monopoly.

7. With the aid of sketches explain how supply and demand may determine price.

8. A firm cannot expand indefinitely. Discuss.

9. (a) Define the following :
   (i) Average product of labour.
   (ii) Marginal product of labour.

   (b) The following table is derived from a production firm y.

Labour (L)	Total Product (TP) tons.	Marginal Product (MP_L) tons.	Average Product (AP_L) tons.
1	3		
2	8		
3	15		
4	20		
5	24		
6	26		
7	26		
8	24		
9	23		
10	20		

From the table answer the following questions:
   (i) Calculate the marginal product and average product for each labour level.
   (ii) Present graphically the data from the completed table above.
   (iii) Explain the law of economics portrayed by the curves.

10. Money by its own qualifies and condition is a facilitator of exchange. Discuss