

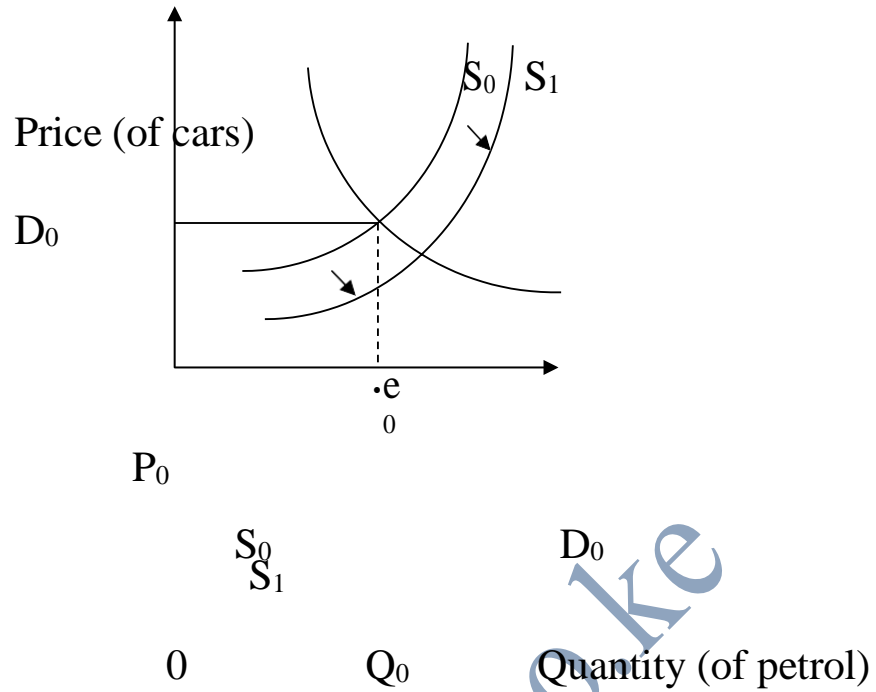
Economics

Part I: Introduction

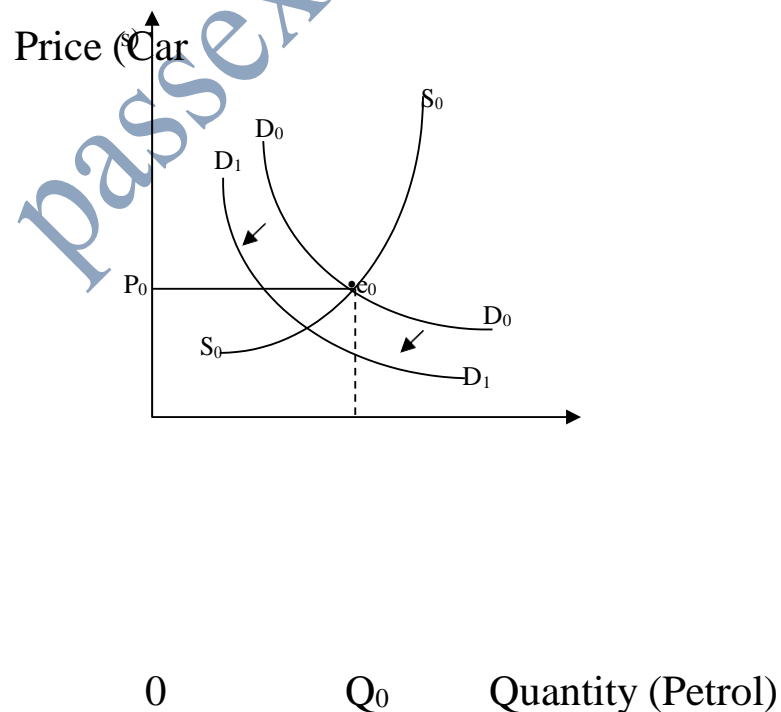
Although the economic orientation keeps changing, the underlying concept remains the same. This revision kit is in recognition of the fundamental principle that economics is a development and learning is a process. It is absolutely necessary to have a systematic approach to studies, right up to the examination. A proper examination strategy is required irrespective of the mode of study.

The purpose of this booklet is to assist accounting students revise economics in preparation for the KASNEB Examinations. It is not intended to be a perfect substitute of either the Distance Learning Centre study pack or other economics reference textbooks. This kit serves no new purpose in that a serious student ought to look at examination papers for the past few sittings and whether compelled or not write out the answers to some of the questions in order to gain practice in self-expression.

To assist the candidate in the mastery of the subject, the explanation of questions is devoid of any economics jargon – the language used in explaining concepts is as simple and practical as possible, and with a view to enabling candidates to easily articulate economic



An increase in price of a complementary good has an effect reducing demand represented by a downward shift of the demand curve from $D_0 D_0$ to $D_1 D_1$



In this case, however, the fall in cost of production is accompanied

$$TC = 1000 + 1000 - 1500 + 1000 \quad TC = 1616$$

$$TC = 1500$$

ii) Total fixed cost (TFC)

$$TC = TFC + TVC$$

$$TC = 1000 + 100 - 15Q^2 + Q^3$$

TFC does not vary with output (same at all levels of output) So when $Q = 0$

$$TC = TFC = 1000$$

$$\underline{\text{When } Q = 10}$$

$$\underline{TFC = 1000}$$

$$\underline{\text{When } Q = 11}$$

$$\underline{TFC = 1000}$$

iii) Total variable cost (TVC)

$$TC = TFC + TVC$$

$$TVC = TC - TFC$$

$$TVC = 1000 + 100Q - 15Q^2 + Q^3 - 1000$$

$$TVC = 100Q - 15Q^2 + Q^3$$

$$\underline{\text{When } Q = 10}$$

$$\underline{\text{when } Q = 11}$$

$$TVC = 100(10) - 15(10)^2 + (10)^3 \quad TVC = 100(11) - 15(11)^2 + (11)^3$$

$$TVC = 1000 - 1500 + 1000 \quad TVC = 1100 - 1815 + 1331$$

$$TVC = \underline{500}$$

$$TVC = \underline{616}$$

• Average Costs:

i) Average Total Cost (ATC)

Average Total cost is the total cost per unit of output, that is, \underline{TC}