



**BACHELOR OF SCIENCE IN SUPPLY CHAIN AND OPERATIONS MANAGEMENT**  
**END OF SEMESTER EXAMINATION**  
**SCM 1205: PRINCIPLES OF ECONOMICS**

**Date:** Monday, 25<sup>th</sup> January 2021

**Time:** 2 Hours

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**Question ONE (Compulsory)**

- a) Giving relevant examples, explain the meaning of the following concepts as used in economics;
  - i) Scarcity (2 marks)
  - ii) Positive economics (2 marks)
  - iii) Utility (2 marks)
  - iv) Gross national product(GDP) (2 marks)
  - v) Marginal propensity to consume (2 marks)
- b) Outline **THREE** exceptions to the law of demand (3 marks)
- c) Highlight **THREE** characteristics of less developed countries (3 marks)
- d) Outline **TWO** consequences of having high levels of unemployment in an economy (2 marks)
- e) Describe **TWO** motives for holding money according to Keynesian theory. (2 marks)

**(Total 20 marks)**

**Question TWO**

- a) State the law of diminishing returns and its assumptions (5 marks)
- b) The Kenyan economy has been experiencing high rates of inflation in the recent past. Explain **FIVE** factors that may have contributed to this trend. (10 marks)

**(Total: 15 marks)**

**Question THREE**

- a) For money to be able to perform its functions, it must possess certain characteristics. Explain **SEVEN** such characteristics. (7 marks)

- b) Explain **FOUR** sources of monopoly power (8 marks)

**(Total: 15 marks)**

**Question FOUR**

- a) Using relevant diagram(s), distinguish between a movement and a shift of the supply curve. ( 8 marks)
- b) The table below shows the cost of production for a hypothetical firm. Complete the columns for average and marginal costs (7 marks)

Output	Total cost	Average cost	Marginal cost
0	50	-	-
1	70	-	-
2	80	-	-
3	85	-	-
4	95	-	-
5	115	-	-
6	160	-	-

**(Total: 15 marks)**

**Question FIVE**

- a) Explain **FOUR** tools of monetary policy (8 marks)
- b) Using relevant diagram, explain the concept of circular flow of income (7 marks)

**(Total: 15 marks)**