



STRATHMORE UNIVERSITY BUSINESS SCHOOL  
END OF SEMESTER EXAMS FOR THE DEGREE OF BACHELOR OF  
SUPPLY CHAIN MANAGEMENT  
SCM1205: PRINCIPLES OF ECONOMICS

14<sup>th</sup> March, 2022

Time: 2 hours

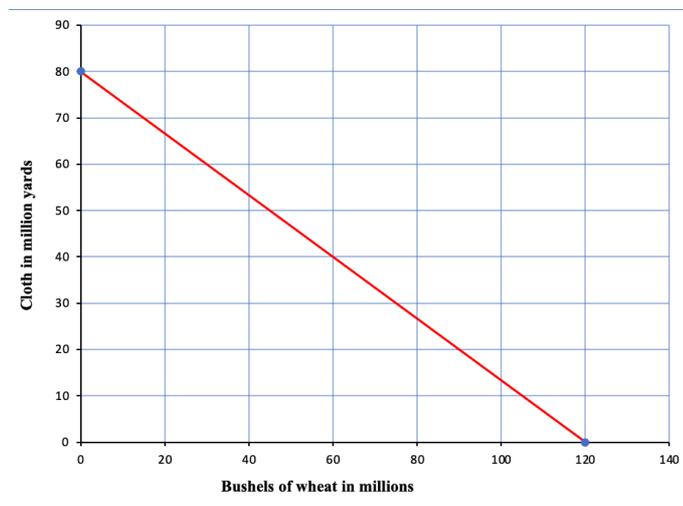
**Instructions**

Attempt **Question One (Compulsory)** and any other **TWO** questions

**Question 1**

- (a) Consider the productivity possibility frontier shown in Figure 1 and use it to answer the following questions.

**Figure 1: Nakuru County's Productivity possibility curve (PPF)**



- (i) If all the resources in Nakuru County were employed in producing cloth how many units of cloth would be produced? {2 marks}
- (ii) Are the following points feasible, not feasible, efficient or inefficient?
- (I) 60 million bushels of wheat and 60 million yards of cloth {2 marks}
  - (II) 80 million bushels of wheat and 20 million yards of cloth {2 marks}
  - (III) 60 million bushels of wheat and 40 million yards of cloth {2 marks}

- (iii) What is the opportunity cost of producing a bushel of wheat in Nakuru County {2 marks}
  - (iv) What is the opportunity cost of producing 40 million yards of cloth? {2 marks}
  - (v) What would you advice Nakuru County to do to increase its productivity possibility set? {2 marks}
- (b) Using your country as for illustrations, with the help of minimum working examples discuss the various macro economic policy objectives {8 marks}
- (c) A survey indicated that chocolate is Kenyans favourite ice cream flavour. For each of the following, indicate the possible effects on demand, supply, or both as well as equilibrium price and quantity of chocolate ice cream.
- (i) A severe drought in Central Kenya causes dairy farmers to reduce the number of milk-producing cattle in their herds by a third. These dairy farmers supply cream that is used to manufacture chocolate ice cream. {4 marks}
  - (ii) A new report by the Kenya Medical Research Institute (KEMRI) reveals that chocolate does, in fact, have significant health benefits. {4 marks}

**[30 marks]**

**Question 2**

- (a) Table 1 shows the demand and supply schedule for pizza

Table 1: **Demand and Supply Schedule for Pizza**

Price	Quantity Demanded	Quantity Supplied
KES4	135 Pizzas	26 Pizzas
5	104	53
6	81	81
7	68	98
8	53	110
9	39	121

- (i) What is the equilibrium price and quantity of Pizza {2 marks}
  - (ii) What is the nature of disequilibrium at KES8 and how would the market rectify it? {2 marks}
  - (iii) What is the nature of disequilibrium at KES5 and how would the market correct it? {2 marks}
  - (iv) Suppose the consumers increased their consumption of Pizzas by 30 units irrespective of the price. What will be the new demand and supply schedule? What will be the new equilibrium price and quantity? {4 marks}
  - (v) State any six factors that what would occasion the change in 2a(iv) above {3 marks}
- (b) The Kenyan economy is mixed. With the help of relevant examples state the kind of goods that government and the private sector should focus on producing {7 marks}

**[20 marks]**

### Question 3

- (a) Table 2 shows the national income statistics of country A. Use these statistics to answer the following questions

Table 2: Country A's National Income statistics

Item	Value (KESbn)
Consumption expenditure (at market prices)	260
Investment expenditure (at market prices)	70
Government Spending (at market prices)	85
Export of goods and services (at market prices)	20
Import of goods and services (at market prices)	25
Net Income from abroad	5
Indirect taxes	60
Capital depreciation	20

- (i) Define GDP and state the three items it measures {4 marks}
- (ii) Using a relevant approach calculate the GDP of country A given the statistics in Table 2? {2 marks}
- (iii) What is the distinction between GDP and GNP? What is country A's GNP? {2 marks}
- (iv) Calculate Country A's net national product (NNP) {1 mark}
- (v) Suppose Country A did not tax her citizens what would her GDP be? {1 mark}
- (b) The mayor of Kisumu City, is worried about a potential epidemic of deadly influenza this long rains season, he asks an economic adviser the following series of questions. Determine whether a question requires the economic adviser to make a positive assessment or a normative assessment.
- (i) How much vaccine will be in stock in the city by the end of November? {2 marks}
- (ii) If we offer to pay 10% more per dose to the pharmaceutical companies providing the vaccines, will they provide additional doses? {2 marks}
- (iii) If there is a shortage of vaccine in the city, whom should we vaccinate first the elderly or the very young? (Assume that a person from one group has an equal likelihood of dying from influenza as a person from the other group.) {2 marks}
- (iv) If the city charges KES25 per shot, how many people will pay? {2 marks}
- (v) If the city charges KES25 per shot, it will make a profit of KES10 per shot, money that can go to pay for inoculating poor people. Should the city engage in such a scheme? {2 marks}

[20 marks]

### Question 4

- (a) Consider the short run production process represented by Table 3

Table 3: Short run Production Process

Capital	Labour	Output
1	0	0
1	1	5.6
1	2	20.8
1	3	43.2
1	4	70.4
1	5	100
1	6	129.6
1	7	156.8
1	8	179.2
1	9	194.4
1	10	200
1	11	193.6
1	12	172.8

- (i) Complete Table 3 for the marginal product of labour of labour  $MP_L$  {3 marks}
  - (ii) Complete Table 3 for average product of labour of labour  $AP_L$  {3 marks}
  - (iii) Identify the three stages of production in Table 3 {3 marks}
  - (iv) What are the policy implications to a firm operating in first, second and third stage of production? {6 marks}
- (b) State any five circumstances under which the law of demand may be disobeyed {5 marks}

[20 marks]

### Question 5

- (a) Suppose that business travelers and vacationers have the following demand for airline tickets from Nairobi to JFK:

Table 4: Demand for Air tickets vacationers and business travellers

Price (USD)	Quantity Demanded (Business travellers)	Quantity Demanded (Vacationers)
150	2,100	1,000
200	2,000	800
250	1,900	600
300	1,800	400

- (i) As the price of tickets rises from USD200 to USD250, find and interpret the price elasticity of demand for business travelers and vacationers using the midpoint method {6 marks}
- (ii) With reasons identify the nature of price elasticity of demand for both the vacationers and business travellers {2 marks}
- (iii) What is the main reason for difference between the nature of the price elasticity of demand between the vacationers and the business travellers {2 marks}

- (iv) What two other goods or services that would have price elasticity of demand with similar nature to that of business travellers {2 marks}
- (b) The government had set a maximum price policy to regulate lending by commercial banks when it set the lending rate four percentage points above the base rate. However this decision has since been rescinded. Based on the consequences of a maximum price policy, what could have led to the rescinding of this price policy? {8 marks}

[20 marks]

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