



**STRATHMORE INSTITUTE  
DIPLOMA IN INTERNATIONAL RELATIONS  
END OF SEMESTER EXAMINATION  
DIR 1304: ECONOMICS AND INTERNATIONAL RELATIONS**

DATE: 19<sup>th</sup> January 2022

Time: 2 Hours

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.
3. Do not write on the question paper.

**QUESTION ONE**

**(30 Marks)**

- a) Briefly explain 5 reasons against international trade restrictions. (10 marks)
- b) The table below shows the quantity of units produced by a certain firm and the corresponding total cost:

Units produced	Total cost (Sh. "000")
0	77
2	216
4	235
6	319
8	348
10	382

**Required:**

- (i) The average variable costs when the units produced are 2, 6 and 10 respectively. (3 marks)
- (ii) The marginal costs of production for the 4" and 8" units respectively. (2 marks)
- c) Enumerate five factors that determine the price elasticity of demand of a commodity. (5 marks)
- d) Choose one correct answer for each of the following questions
  - 1- The quantity demanded is
    - i. The amount of a good that consumers plan to purchase at a particular price.
    - ii. Independent of the price of the good.
    - iii. independent of consumers' buying plans
    - iv. always equal to the equilibrium quantity

(1 mark)

2- In 2019, there were 500,000 Charcoal grills demanded at a price of Kshs.5, 000. In 2020 there were more than 500,000 charcoal grills demanded at the same price. This increase could be the result any of the following EXCEPT

- i. An increase in the supply of gas grills.
- ii. An increase in population.
- iii. An increase in income if gas grills are a normal good.
- iv. A fall in the price of natural gas, a complement for a gas grill.

(1 mark)

3- A change in the price of a good

- i. Shifts the good's demand curve but does not cause a movement along it.
- ii. Does not shift the good's demand curve but does cause a movement along it.
- iii. Shifts the good's demand curve and also causes a movement along it.
- iv. Neither shifts the good's demand curve nor causes a movement along it.

(1 mark)

4- The law of demand implies that if nothing else changes, there is:

- i. A linear relationship between price of a good and the quantity demanded.
- ii. A positive relationship between the price of a good and the quantity demanded.
- iii. A negative relationship between the price of a good and the quantity demanded.
- iv. Exponential relationship between price of a good and the quantity demanded.

(1 mark)

5- The demand for a good increases when the price of a substitute \_\_\_\_\_ and also increases when the price of a complement \_\_\_\_\_.

- i. falls; falls
- ii. rises; falls
- iii. rises; rises
- iv. falls; rises

(1 mark)

6- When economists speak of preferences as influencing demand, they are referring to

- i. The availability of a good to all income classes.
- ii. Directly observable changes in prices and income.
- iii. The excess of wants over the available supplies.
- iv. An individual's attitudes toward goods and services.

(1 mark)

7- The price of jet fuel falls. This fall shifts the

- i. Supply curve of airplane trips rightward.
- ii. Demand curve for airplane trips leftward.
- iii. Demand curve for airplane trips rightward.
- iv. Supply curve of airplane trips leftward.

(1 mark)

- 8- If there is surplus of a good, then the quantity demanded \_\_\_\_\_ the quantity supplied and the price will \_\_\_\_\_.
- i. is less than; rise
  - ii. is less than; fall
  - iii. is greater than; fall
  - iv. is greater than; rise

(1 mark)

- 9- You notice that the price and quantity of wheat both decrease. This observation can be the result of the
- i. Demand curve for wheat shifting leftward.
  - ii. Supply curve of wheat shifting rightward.
  - iii. Demand curve for wheat shifting rightward.
  - iv. Supply curve of wheat shifting leftward.

(1 mark)

- 10- A technological improvement lowers the cost of producing coffee. At the same time, consumers' preferences for coffee increase. The equilibrium price of coffee will
- i. Rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves.
  - ii. Remain the same.
  - iii. Fall.
  - iv. Rise

(1 mark)

## QUESTION TWO

- a) Discuss five negative effects of inflation in an economy. (10 marks)
- b) Highlight five reasons why most developing countries have failed to realize the benefits of international trade. (5 marks)

(15 MARKS)

## QUESTION THREE

- a) The per capita income of a hypothetical country increased from 20% from 2015 to 2018. Despite this increase, the people in the country feel like their standards of living haven't increased but rather the standards are deteriorating. Explain five reasons for this feeling. (10 marks)
- b) Suggest five policy measures that could be adopted by a government to enhance geographical mobility of labour within a country. (5 marks)

(15 MARKS)

## QUESTION FOUR

- a) Examine 5 Features of a planned economic system. (5 marks)
- b) Highlight four determinants of economic development in a country. (4 marks)
- c) The demand and supply of houses in a certain city are represented by the following functions (in thousands):

$$Q_d = 100 - 2p$$

$$Q_s = 50 + 5p$$

Where:  $Q_d$  is the quantity demanded.  $Q_s$  is the quantity supplied.

$P$  is the rental price per house.

Required:

- (i) The equilibrium price and quantity. (4 marks)
- (ii) Evaluate the effect of a rental price ceiling set by the rental control board at Sh.6, 500 per house. (2 marks)

(15 MARKS)

## QUESTION FIVE

- a) Give any 3 advantages of a monopoly in an economy (3 marks)
- b) Summarise five factors that could lead to a leftward shift of the supply curve of a commodity (5 marks)
- c) The data provided below relate to the quantities demanded of commodities A, B and C at different price levels:

Commodity A		Commodity B		Commodity C	
Unit Price	Quantity demanded	Unit price	Quantity demanded	Unit price	Quantity demanded
(Sh.)	(Units)	(Sh.)	(Units)	(Sh.)	(Units)
75	923	14	350	28	540
52	1,568	21	620	24	600

Required:

- a) Calculate the elasticity of demand for commodities A, B and C. (6 marks)
- b) Using the results obtained in (c) (i) above, advise the government on the commodity that should be considered for a tax increase. (1 mark)

(15 MARKS)