



Strathmore
UNIVERSITY

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

DATE: 11th December, 2020

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer Question **one (COMPUSLORY)** and **any other two questions**.

QUESTION ONE (COMPULSORY)

(30 MARKS)

- a. Festive World is a normal good that is produced and sold by the Festive World Bakery. Explain what will happen to the equilibrium price and quantity of Festive Worlds in each of the following scenarios:
 - i. Festive World Bakery buys new, high technology dough preparation equipment and new computer-controlled ovens for its bakeries. (2 marks)
 - ii. Sales increase when it is noticed by a local health expert in a health-conscious community that Festive Worlds contain higher nutritional value than competing Festive. (2 marks)
 - iii. Good Morning Bakery, a local competitor, drops the price of their Festive. (2 marks)
 - iv. The local automobile assembly plant which hires many of Festive World's customers lays off some employees due to a mild recession and the community's average income decreases. (2 marks)
 - v. The cost of flour used in Festive Worlds increases significantly. (2 marks)
- b. With reference to international trade, summarize the negative consequences of trade liberalization in developing countries. (8 marks)
- c. Identify six negative effects of increased government spending on economic growth in developing countries. (6 marks)
- d. Developing countries experience balance of payments deficits. Explain six disadvantages of adopting an import substitution strategy to correct balance of payments deficits in these countries. (6 marks)

QUESTION TWO

(15 MARKS)

- a) Would an opinion by an Economist in a local newspaper recommending adoption of a particular economic policy be a positive or normative statement? Justify (2 marks)
- b) Would research study on the effects of junk food consumption on development of lifestyle diseases be a positive or normative statement? Justify (2 marks)

- c) A production possibilities frontier is drawn as a curve and not a straight line. Justify (2 marks)
- d) Give reasons why one cannot make a choice above their production possibilities frontier and why it not advisable make a choice below it. (2 marks)
- e) With the aid of a well labelled diagram, illustrate the relationship between marginal cost and average cost as applied in production theory. (7 marks)

QUESTION THREE

(15 MARKS)

- a) With the aid of appropriate diagrams, describe three properties of indifference curves. (9 marks)
- b) The table below shows the total utility Akinyi derives from eating Samosas in the evening while studying.

Pieces of Samosa/evening	Total Utility
0	0
1	30
2	48
3	60
4	70
5	78
6	80
7	76

- i. How much marginal utility does Akinyi derive from the third piece of pizza? (1 marks)
- ii. After eating how many pieces of Samosa does marginal utility start to decline? (1 marks)
- c) A typical demand curve slope downwards. Justify by giving two reasons (4 marks)

QUESTION FOUR

(15 MARKS)

- a) Using a suitable diagram, explain the three stages in the law of variable proportions. (9 marks)
- b) Suppose Njeri buys the following amounts of various food items depending on her weekly income:

Weekly Income	Hamburgers	Pizza Ice	Cream Sundaes
Ksh.500	3	3	2
Ksh.750	4	2	2

Using the concept of elasticity, determine the nature of each of the following:

- i. Hamburgers (3 marks)
- ii. Pizza Ice (3 marks)

QUESTION FIVE**(15 MARKS)**

- a) Give 5 reasons why the existence of monopolies may be beneficial to an economy. (5 marks)

- b) The table below shows the total cost of cleaning Dining rooms:

Dining rooms cleaned per evening	0	3	7	12	16	17
Total cost	Ksh. 100	Ksh.200	Ksh.300	Ksh.400	Ksh.500	Ksh.600

- i. What is the average fixed cost of cleaning three Dining rooms? (1 mark)
 - ii. What is the average variable cost of cleaning three Dining rooms? (1 mark)
 - iii. What is the marginal cost of cleaning the seventeenth Dining room? (1 mark)
 - iv. What is the average total cost of cleaning twelve Dining rooms? (1 mark)
 - v. What is the fixed cost of cleaning twelve Dining rooms? (1 mark)
- c) Discuss the 5 key features of a mixed economic system. (5 marks)