



**STRATHMORE INSTITUTE
DIPLOMA IN ENTREPRENEURSHIP
END OF SEMESTER EXAMINATION
DE 1201 - Introduction to economics**

DATE: 15th August 2019

Time: 2 Hours

Instructions

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

QUESTION ONE

(a) Define the term “consumer surplus”.(2 marks)

(b) Given below is the demand schedule:

Price (Ksh.)	10	8	6	4
Quantity (units)	0	2	4	6

Required:

With the aid of a graph, determine the value of consumer surplus if a single price of Sh. 5 prevails in the market. (6marks)

(c) Explain the factors that could lead to a downward shift in the demand curve. (6 marks)

d) Outline four demerits of direct taxation to an economy. (4marks)

e) Analyze three positive and three negative effects of a monopoly market structure in an economy. (6 marks)

f) Explain three factors that contribute to wage differentials between different occupations in a country. (6 marks)

QUESTION TWO

(a) Describe four uses of national income statistics. (4 marks)

- b) Enumerate five factors that determine the price elasticity of demand of a commodity. (5 marks)
- c) Outline six disadvantages of a free market economic system. (6 marks)

QUESTION THREE

- a) Suppose in a two commodity market model the supply and demand functions are given as:

$$Q_{S1} = -3 + 4P1$$

$$Q_{S1} = -18 + 4P2$$

$$Q_{D1} = 4 - P1 + 0.5P2$$

$$Q_{D2} = 10 + P1 - P2$$

Using the functions provided, calculate the equilibrium values of prices and quantities (8 marks)

- b) Summarise seven barriers to occupational mobility of labour as a factor of production. (7 marks)

QUESTION FOUR

- a) Using a suitable diagram, explain the three stages in the law of variable proportions. (10 marks)
- b) Identify the characteristics of an oligopolistic market structure. (5 marks)

QUESTION FIVE

- a) With reference to demand and supply analysis, identify six effects of fixing the maximum price of a commodity below the equilibrium price. (6 marks)
- b) Summarise nine reasons why unemployment is a major policy issue in developing countries (9 marks)