



**STRATHMORE INSTITUTE
DIPLOMA IN ENTREPRENEURSHIP
END OF SEMESTER EXAMINATIONS
INTRODUCTION TO ECONOMICS**

DATE: 16th December 2021

Time: 2 Hours

Instructions

1. This examination consists of **TWO** Sections.
2. Answer **ALL Questions in section A (COMPULSORY)** and any other **TWO** questions in **section B**
3. Do not write on the question paper.

SECTION A (COMPULSORY)

Question 1

An increase in the price of a product will reduce the amount of it purchased because:

- A. Supply curves are up sloping.
- B. The higher price means that real incomes have risen.
- C. Consumers will substitute other products for the one whose price has risen.
- D. Consumers substitute relatively high-priced for relatively low-priced products.

Question 2

Which of the following will not cause the demand for product K to change?

- A. a change in the price of close-substitute product J
- B. an increase in consumer incomes
- C. a change in the price of K
- D. a change in consumer tastes

Question 3

Which of the following would not shift the demand curve for beef?

- A. a widely publicized study which indicates beef increases one's cholesterol
- A. a reduction in the price of cattle feed
- B. An effective advertising campaign by pork producers
- C. A change in the incomes of beef consumers

Question 4

If the price of K declines, the demand curve for the complementary product J will:

- A. Shift to the left.
- B. Decrease.
- C. Shift to the right.
- D. Remain unchanged.

Question 5

A firm's supply curve is upsloping because:

- A. The expansion of production necessitates the use of qualitatively inferior inputs.
- B. Mass production economies are associated with larger levels of output.
- C. Consumers envision a positive relationship between price and quality.
- D. Beyond some point the production costs of additional units of output will rise.

Question 6

The price of jet fuel falls. This fall shifts the

- A) Supply curve of airplane trips rightward.
- B) Demand curve for airplane trips leftward.
- C) Demand curve for airplane trips rightward.
- D) Supply curve of airplane trips leftward.

Question 7

Let Q_d stand for the quantity demanded, Q_s stand for the quantity supplied, and P stand for price. If $Q_d = 20 - 2P$ and $Q_s = 5 + 3P$, then the equilibrium price is

- A) \$2.
- B) \$3.
- C) \$4.
- D) \$1.

Question 8

Let Q_d stand for the quantity demanded, Q_s stand for the quantity supplied, and P stand for price.

If $Q_d = 20 - 2P$ and $Q_s = 5 + 3P$, then the equilibrium quantity is

- A) 14.
- B) 5.
- C) 20.
- D) 3.

Question 9

If a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is

- A) 0.83.
- B) 0.30.
- C) 0.60.
- D) 1.20.

Question 10

A 10 percent increase in the quantity of spinach demanded results from a 20 percent decline in its price. The price elasticity of demand for spinach is

- A) 0.5.
- B) 20.0.
- C) 2.0.
- D) 10.0.

Question 11

The demand for movies is unit elastic if

- A) Any increase in the price leads to a 1 percent decrease in the quantity demanded.
- B) A 5 percent decrease in the price leads to an infinite increase in the quantity demanded.
- C) A 5 percent increase in the price leads to a 5 percent decrease in the quantity demanded.
- D) A 5 percent increase in the price leads to a 5 percent increase in total revenue.

Question 12

Which of the following is the most competitive market structure?

- A. Perfect competition
- B. Monopolistic competition
- C. Oligopoly
- D. Monopoly

Question 13

Which of the following is the least competitive market structure?

- A. Perfect competition
- B. Monopolistic competition
- C. Oligopoly
- D. Monopoly

Question 14

Which of the following is NOT a feature of monopolistic competition?

- A. Numerous sellers
- B. Product differentiation
- C. Numerous buyers
- D. Homogenous products

Question 15

In which form of market structure would price be the key factor when competing?

- A. Monopoly
- B. Oligopoly
- C. Monopolistic competition
- D. Perfect competition

Question 16

The average income of the country is

- A. Per capita income
- B. Disposable income
- C. Inflation rate
- D. Real national income

Question 15

Which of the following best describes the concept of economic growth?

- A. Increase in the welfare of the citizens
- B. Increase in real per capita income
- C. Reduction in prices of goods and services
- D. Increase in the exchange rate of country's currency
- E. Increase in industries established in a country

Question 16

The following are problems associated with development planning in the less developed nations except.

- A. Inadequate statistical data
- B. Lack of proper co-ordination of various units in the system
- C. Political stability in the country
- D. frequent changes in socio-economic and political policies
- E. Shortage of skilled and technical manpower

Question 17

Which of the following does not stimulate the economic growth of a nation?

- A. Availability of skilled human recourses
- B. Accumulation of capital
- C. Expansion of the knowledge
- D. Depletion of the environmental quality
- E. Availability of mineral resources

Question 18

When aggregate demand exceeds aggregate supply, the result is

- A. cost push inflation
- B. demand-pull inflation
- C. imported inflation
- D. spiral inflation
- E. creeping inflation

Question 19

The following are negative effects of inflation except:

- A. Increase in real income
- B. Discourages lending
- C. Borrowers gain

- D. Value of imports may increase
- E. Inefficiency in production

Question 20

Which of the following can be used to check inflation caused by excess demand?

- A. Reduction in cash reserve ratio
- B. Increase in government expenditure
- C. Reduction in income taxes
- D. Increase in discount rates
- E. Purchase of treasury bills in open market operation

Question 21

The presumption that the average consumer will always maintain the utility maximization position in his spending is referred to as

- A. Cardinal utility
- B. Consumer equilibrium
- C. Consumer rationality
- D. Diminishing marginal utility
- E. Constant marginal utility of money

Question 22

Which of the following indicates the negative slope of the indifference curve?

- A. Marginal rate of substitution
- B. Axiom of transitivity
- C. Budget schedule
- D. Consumer equilibrium
- E. Ordinal utility

Question 23

Which of the following gives the reason why it would be logically impossible for two indifference curves to cross?

- A. The law of diminishing marginal utility
- B. Axiom of transitivity
- C. Assumption of consumer rationality
- D. The negative slope of the indifference curve
- E. The law of diminishing marginal rate of substitution

Question 24

Which of the following does the principle of diminishing marginal utility say about what happens when a consumer consumes more of a product?

- A. The consumer's total utility will be unaffected.
- B. The consumer's total utility will diminish.
- C. The consumer's marginal utility will diminish.
- D. The consumer's marginal utility will become negative

Question 25

The output per unit of the variable factor employed is called:

- A. Marginal product
- B. Average product
- C. Total product
- D. Average cost
- E. Productivity of labour

Question 26

Law of variable proportion is valid when:

- A. Only one input is variable and all other inputs are fixed
- B. All factors are constant
- C. All inputs are varied in the same proportion.

D. Only one input is fixed and all other inputs are variable

Question 27

If you know that with 8 units of output, average fixed cost is \$12.50 and average variable cost is \$81.25, then total cost at this output level is:

- A. \$93.75.
- B. \$97.78.
- C. \$750.
- D. \$880.

Question 28

Variable costs are:

- A. Sunk costs.
- B. Multiplied by fixed costs.
- C. Costs that change with the level of production.
- D. Defined as the change in total cost resulting from the production of an additional unit of output.

Question 29

The short run is a time period in which:

- A) All resources are fixed.
- B) The level of output is fixed.
- C) The size of the production plant is variable.
- D) Some resources are fixed and others are variable

Question 30

Which of the following is a variable cost in the short run?

- A) Rent on the factory
- B) Wages paid to factory labour
- C) Interest payments on borrowed financial capital
- D) Payment on the lease for factory equipment

E) Salaries paid to upper management

(TOTAL: 30 MARKS)

SECTION B

Question two

a) Enumerate five advantages and five disadvantages of a planned economic system.
(10 marks)

b) Enumerate five factors that could lead to a rightward shift of the supply curve.
(5 marks)

(TOTAL: 15 MARKS)

Question three

(a) Highlight five strategies that could be implemented by governments in developing countries to spur growth in the industrial sector. (5 marks)

(b) With the aid of a diagram explain the production possibility frontier. (5 marks)

(c) Summarize five ways through which the government could influence the allocation of resources in a free market economy. (5 marks)

(TOTAL: 15 MARKS)

Question 4

(a) Discuss five policy measures that developing countries could adopt to reduce regional imbalances. (5 marks)

b) Discuss five canons of a good taxation system. (10 marks)

(TOTAL: 15 MARKS)

Question five

a) Analyse six factors that influence the cost behaviour of a firm. (6 marks)

b) Summarize five causes of inflation in developing countries. (5 marks)

c) The following information relate to the price per unit and quantity supplied of a certain product:

| | | | | | |
|----------------------------------|--------|--------|-------|-------|---|
| Price per unit (Sh.) | 12 | 10 | 8 | 5 | 2 |
| Quantity supplied (Units) | 12,000 | 11,000 | 9,000 | 6,000 | 0 |

Required:

Price elasticity of supply when price decreases from Sh.10 per unit to Sh.5 per unit. Interpret your result. (4 marks)

(TOTAL: 15 MARKS)