



Strathmore
UNIVERSITY

**STRATHMORE INSTITUTE
DIPLOMA IN ENTREPRENEURSHIP
END OF SEMESTER EXAMINATION
DE 1201: INTRODUCTION TO ECONOMICS**

DATE: 12th April, 2024

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

a) Differentiate between:

- i. Change in supply and change in quantity supplied (4 marks)
- ii. Positive economics and normative economics (2 marks)

b) The following is a supply schedule of good Y:

Price	10	12	14	16
Quantity supplied	20	25	30	35

Required:

Price elasticity of supply when price reduces from 16 to 12. Interpret your answer.

(4 marks)

- c) Explore **FOUR** factors that will determine the rate of economic growth (4 marks)
- d) By use of a diagram, explain the relationship between marginal cost and average cost curves (6 marks)
- e) Enumerate any **FIVE** characteristics of a planned economy (5 marks)

f) The following statistics relate to a hypothetical economy in billions of shillings:

GNP at market price	790
Retained earnings	89
Depreciation	34
Taxes less subsidies	67
Business taxes	12
Social security contribution	29
Transfer payments	57
Personal income taxes	8

Required:

- i. Net national product at market price (1 mark)
- ii. Net national product at factor cost (1 mark)

- iii. Personal income (2 marks)
 - iv. Personal disposable income (1 mark)
- (Total: 30 marks)**

QUESTION TWO

- a) By use of diagrams, explain the effects of the following on the equilibrium price and quantity Manji biscuits:
 - i. An increase in price of Britannia biscuits, a close substitute of Manji biscuits (4 marks)
 - ii. A campaign by health experts that too much consumption biscuits raises cholesterol levels which lead to cardiovascular diseases (4 marks)
 - iii. A removal of a government subsidy towards biscuit production (4 marks)
 - b) Identify THREE advantages of direct tax (3 marks)
- (Total :15 marks)**

QUESTION THREE

- a) Give any FIVE factors that will determine demand for labour (5 marks)
 - b) Mention and explain any FIVE factors that will determine price elasticity of supply (10 marks)
- (Total :15 marks)**

QUESTION FOUR

- a) Examine any FIVE applications of opportunity cost (5 marks)
 - b) By use of a diagram, explain how a perfect competitive firm will make supernormal profits in the short run (7 marks)
 - c) List any THREE characteristics of developing countries (3 marks)
- (Total :15 marks)**

QUESTION FIVE

- a) List any FIVE factors that will lead to a downward shift in demand curve (5 marks)
 - b) Highlight any FIVE factors that will limit consumer sovereignty (5 marks)
 - c) By use of a diagram, explain the consumer equilibrium position under ordinal approach (5 marks)
- (Total :15 marks)**