



STRATHMORE INSTITUTE  
DIPLOMA IN BUSINESS CREATION & ENTREPRENEURSHIP  
END OF SEMESTER EXAMINATION  
UNIT CODE: DE 1201: INTRODUCTION TO ECONOMICS

DATE: 5<sup>th</sup> August 2024

Time: 15:30 – 17:30 Hours

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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**

**Read the case study below and answer the questions that follow:**

You are an economic consultant hired by the government of a small developing country, Econland. The country is facing several economic challenges and the government is seeking your expertise to understand and address these issues. Your task is to analyze the current economic situation of Econland, taking into account various economic concepts and principles, and provide comprehensive recommendations.

**Questions:**

- a) Using the production possibility frontier (PPF) or curve (PPC) to illustrate your answer, define the concepts of scarcity and opportunity cost **(4 Marks)**
- b) With justification discuss the type of economic system that would be most suitable for Econland **(3 Marks)**
- c) Explain the factors that determine the market demand and supply for a critical commodity in Econland. **(2 Marks)**
- d) The government of Econland is considering imposing price controls on essential goods to make them affordable. Discuss any four potential effects of price ceilings on market outcomes, including any unintended consequences. **(4 Marks)**
- e) Analyze how a tax on luxury goods might affect consumers and producers in Econland. Use the concepts of consumer surplus, producer surplus, and deadweight loss to support your answer. **(4 Marks)**
- f) Explain the difference between short-run and long-run production costs in Econland's manufacturing sector. **(4 Marks)**

- g) Econland's telecommunications industry is currently a monopoly. Describe how this monopoly determines its price and output in both the short run and the long run. **(3 Marks)**
- h) Outline how Gross Domestic Product (GDP) is measured in Econland and discuss whether GDP is a good measure of economic well-being in this context. **(3 Marks)**
- i) Discuss the main determinants of economic growth that Econland should focus on to improve its overall development. **(3 Marks)**

### Question Two

- a) Define the concept of demand and explain how the price mechanism operates in the market for electric cars. **(3 marks)**
- b) Identify and discuss four factors that could influence the market demand for electric cars. **(4 marks)**
- c) Explain the difference between a movement along the demand curve and a shift in the demand curve for electric cars. **(3 marks)**
- d) Analyze how a decrease in battery costs would affect the supply curve and market equilibrium for electric cars. **(5 marks)**

### Question Three

- a) Describe how firms in a perfectly competitive market determine their output and price in both the short run and the long run? **(5 Marks)**
- b) Compare and contrast the market structures of monopolistic competition and oligopoly. **(5 Marks)**
- c) Use the concepts of marginal product and average product to explain the concept of the production function and its applicability to short-run and long-run production decisions. **(5 Marks)**

### Question Four

- a) List the different types of costs associated with production in the short run. **(2 Marks)**
- b) Using relevant examples, explain how the costs identified in (a) above influence a firm's production decisions? **(4 Marks)**
- c) Analyze the concept of economies of scale and diseconomies of scale. **(4 Marks)**

**d)** How do these concepts affect the long-run average cost curve of a firm? Use diagrams to support your explanation. **(5 Marks)**

**Question Five**

**A (i)** Discuss the circular flow of income in a closed economy. **(2 marks)**

**(ii)** How does the model above help in understanding the interdependence of different sectors in the economy? **(4 Marks)**

**B (i)** What is the difference between economic growth and economic development? **(2 Marks)**

**(ii)** What are the key indicators used to measure each, and why is it important to distinguish between the two? **(4 Marks)**

**C)** Using hypothetical examples, illustrate how countries can benefit from the concepts of absolute and comparative advantage in international trade. **(3 Marks)**