



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

DATE: 5th December 2018

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

- a) Enumerate six factors that could lead to a leftward shift of the supply curve. (6 marks)
- b) Summarise eight factors that could affect own price elasticity of demand of a commodity. (8 marks)
- c) Summarise five ways through which the government could influence the allocation of resources in a free market economy. (5 marks)
- d) Summarise five causes of inflation in developing countries. (5 marks)
- e) Analyse six uses of elasticity of demand in decision making. (6 marks)

QUESTION TWO

- a) Explain the relationship between the short-run and the long-run average cost curves of a firm. (7 marks)
- b) Discuss the disadvantages of a free market system. (8 marks)

QUESTION THREE

- a) The following data relates to the output levels and the related costs incurred by XYZ limited in the production of a product named “rafiki”

| Output (Units) | Fixed costs Sh'000 | Total variable cost Sh'000 |
|-------------------|-----------------------|-------------------------------|
|-------------------|-----------------------|-------------------------------|

| | | |
|----|-------|-------|
| 0 | 2,000 | 0 |
| 10 | 2,000 | 400 |
| 20 | 2,000 | 1,100 |
| 30 | 2,000 | 1,800 |
| 40 | 2,000 | 2,500 |
| 50 | 2,000 | 2,900 |
| 60 | 2,000 | 4,900 |
| 70 | 2,000 | 5,100 |
| 80 | 2,000 | 5,600 |

The selling price is Sh. 200 per unit.

Required:

- (i) The average cost at each output level. (2 marks)
 - (ii) The marginal cost at each output level. (2 marks)
 - (iii) The output level which satisfies the necessary condition for profit maximization. (2 marks)
- b) Identify four forms of non-tariff barriers. (4 marks)
- c) The data provided below represent estimated National Income figures for country XYZ in trillion of shillings:

| | | |
|--|-----|----|
| Government transfer | 110 | |
| Business taxes | | 30 |
| Depreciation allowance | | 55 |
| Indirect taxes less subsidies | 42 | |
| Personal income taxes | | 63 |
| Gross National Product (at market price) | 480 | |

Use the data to compute the following:

- (i) Net National Income at factor cost (2 marks);
- (ii) Net National Product at market price (2 marks);
- (iv) Disposable income for country XYZ (2 marks).

QUESTION FOUR

- a) Using a suitable diagram, explain the three stages in the law of variable proportions. (9 marks)
- b) Illustrate the long run equilibrium level of output and price of a firm operating under perfect competition. (6 marks)

QUESTION FIVE

- a. Discuss eight limitations of using national income statistics to compare the standards of living between different countries. (10 marks)
- b) Highlight seven arguments in favour of international trade restrictions in a country. (7 marks)