



STRATHMORE INSTITUTE
DIPLOMA IN BUSINESS CREATION & ENTREPRENEURSHIP
END OF SEMESTER EXAMS
DE1201: INTRODUCTION TO ECONOMICS

DATE: 27th April 2022

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 ONE

- a) With the aid of a diagram, explain the concept of the production possibility frontier (6 marks)
 - b) Give four reasons why national income statistics is important. (4 marks)
 - c)
 - i. Explain the term "diminishing marginal utility". (2 marks)
 - ii. Outline three exceptions to the law of diminishing marginal utility. (3 marks)
 - d) Discuss the factors that may cause a shift in the supply curve. (6marks)
 - e) Explain the major characteristics of a free market system. (4 marks)
 - f) If a competitive market system leads to an efficient allocation of resources, justify the reasons for government interventionist policies. (5 marks)
- (30 Marks)

QUESTION TWO

- a. Briefly explain any 3 factors that influence price elasticity of demand. (6 marks)
 - b. The demand for a commodity is 20 units when the prevailing market price equals eighty shillings per unit. However, when the price per unit rises to one hundred shillings, quantity demanded rises to thirty units. Calculate both arc and point elasticities for this commodity. (4 marks)
 - c. Enumerate 5 determinants of economic growth (5 marks)
- (15 marks)

QUESTION THREE

- a) Distinguish between price floors and price ceilings. (6 marks)
 - b) Give 4 consequences of a price ceiling (4 marks)
 - c) Give 5 reasons why the existence of monopolies may be beneficial to an economy. (5 marks)
- (15 marks)

QUESTION FOUR

- a) The market of Samsung mobile phones is represented by the following functions:
 $Q + \frac{1}{2}P = 36$;
 $Q + 9 = \frac{1}{2}P$; where P = price; Q = quantity.
Required:
 - i. Identify the demand and supply functions (give reasons for your answer). (3 marks)
 - ii. The equilibrium price and quantity. (3 marks)
 - b) Mention 5 problems are encountered by economic planners when estimating the national income of a country? (5 marks)
 - c) Identify 4 characteristics of a perfectly competitive market structure. (4 marks)
- (15 marks)

QUESTION FIVE

- a)
 - i. Would an opinion by an Economist in a local newspaper recommending adoption of a particular economic policy be a positive or normative statement? Justify (2 marks)
 - ii. Would research study on the effects of junk food consumption on development of lifestyle diseases be a positive or normative statement? Justify (2 marks)
 - iii. A production possibilities frontier is drawn as a curve and not a straight line. Justify (2 marks)
- b) Distinguish between economic growth and economic development. (4 marks)

c) The table below shows the total cost of cleaning Dining rooms:

Dining rooms cleaned per evening	0	3	7	12	16	17
Total cost	Ksh. 100	Ksh.200	Ksh.300	Ksh.400	Ksh.500	Ksh.600

- i. What is the average fixed cost of cleaning three Dining rooms? (1 mark)
- ii. What is the average variable cost of cleaning three Dining rooms? (1 mark)
- iii. What is the marginal cost of cleaning the seventeenth Dining room? (1 mark)
- iv. What is the average total cost of cleaning twelve Dining rooms? (1 mark)
- v. What is the fixed cost of cleaning twelve Dining rooms? (1 mark)

(15 marks)