



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF SCIENCE IN SUPPLY CHAIN OPERATIONS AND MANAGEMENT**  
**END OF SEMESTER EXAMINATION**  
**SCM 1205: PRINCIPLES OF ECONOMICS**

**DATE:** Fri, 15<sup>th</sup> March 2024

**Time:** 13:00 – 15:00

**Instructions**

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

**QUESTION ONE**

- a) Distinguish between the following pairs of concepts as applied in economics.
- i) Positive economics and normative economics. **(2 Marks)**
  - ii) Public goods and Merit goods **(2 Marks)**
  - iii) Fiat money and Commodity money. **(4 Marks)**
- b) Suppose, when the price of 2 kg sugar increased from Kenya Shilling 150 to Kenya Shilling 400 last year, the quantity demanded dropped from 20,000 units to 6000 units per week.
- Required:**
- i. Calculate the price elasticity of demand using the **Standard Method**. **(2 Marks)**
  - ii. Interpret your answer **(2 Marks)**
- c) In each of the following cases, state the type of unemployment experienced.
- i) Mr Boit quit his job as a waiter in a three-star hotel and is looking for well-paying jobs **(2 Marks)**
  - ii) Ms Cheruno lost her tea-picking job in Kericho in June 2023 due to the introduction of Tea Harvesting/Picking machines. **(2 Mark)**
- d) Explain **three** functions of the central bank in an economy. **(6 Marks)**
- e) Explain **four** determinants of elasticity of supply. **(8 Marks)**

**QUESTION TWO**

- a) Country X has been facing excess money circulation in the economy and is increasing inflation. Explain **five** strategies that the Monetary Authority of country X may use to reduce the amount of liquidity in circulation. **(10 Marks)**

- b) Write brief notes on the following:
- (i) Fixed factors of production (1 Mark)
  - (ii) Variable factors production (1 Mark)

c) The table below represents the short-run cost of production of a firm.

Output	Total Fixed Cost (TFC)	Total Variable Cost (TVC)	Total Cost (TC)	Average Fixed Cost (AFC)	Marginal Cost (MC)
0		0			
1		30			
2		50			
3		65			
4		90			

Supposing, the Total Fixed Costs (TFC) are equal to 110, calculate and fill in the missing figures for **TC**, **AFC** and **MC**. (8 Marks)

### QUESTION THREE

- a) Consider the following data of a hypothetical economy in the fiscal year ending 2023 in billions of shillings.

Consumption Expenditure	700
Indirect Taxes	200
Net factor income from abroad	-300
Investment Expenditure	300
Government Spending	500
Subsidies	150
Exports	300
Import	450
Depreciation	103

#### REQUIRED:

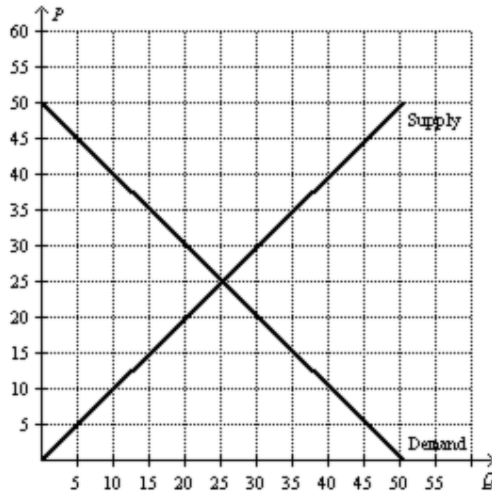
Compute the following:

- (i) Gross Domestic Product (GDP) at market price (2 Marks)
- (ii) Net Domestic Product (NDP) at Market Price (2 Marks)
- (iii) Gross National Product (GNP) at both market price and factor cost. (4 Marks)
- (iv) Net National Product (NNP) at market price (2 Marks)

- b) Discuss **five** arguments that countries give in favour of imposing trade restrictions/protectionism measures. (8 Marks)

#### QUESTION FOUR

- (a) Use the figure below to calculate the consumer surplus, **producer surplus**, and **total surplus** at the market equilibrium (6 Marks)



- (b) The Competition Authority of Kenya has invited you to make a presentation on the possible sources of monopoly power in Kenya. Describe **four** sources of monopoly you would include in your presentation. (8 Marks)
- c) Using relevant examples and a diagram, differentiate between **price ceiling** and **price floor**. (6 Marks)

#### QUESTION FIVE

- (a) State **four** characteristics of a perfectly competitive market structure. (4 Marks)
- (b) The trade balance between Kenya and country Y is in favour of the latter (country Y). Discuss **three** trade protectionism measures that Kenya could consider putting in place to tilt the trade balance in its favour. (6 Marks)
- (c) Define sustainable development and describe **four** Sustainable Development Goals (SDGS). (6 Marks)
- (d) Country X has been increasing taxes and levies on the gross incomes of its citizens arguably to raise government revenue to fund its ballooning budget and repay its growing public debt.
- i. Explain the effect of this strategy on the demand for goods and services. (2 Marks)
  - ii. How do you think this will affect Country X's economic growth? (2 Marks)