



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

DATE: **August, 25th 2023**

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) Summarize five applications of opportunity cost in business decision-making (5 marks)
- b) Outline FIVE demerits of direct taxation to an economy (5 marks)
- c) Demand and supply in a market are described by the equations
 $Q_d = 66 - 3P$; $Q_s = -4 + 2P$
Solve algebraically to find equilibrium P and Q (3 marks)
- d) Identify THREE exceptions to the law of demand (3 marks)
- e) A 10% decrease in the price of a good resulted in a 15% increase in quantity demanded. Calculate the price elasticity of demand using the percentage change method. Interpret your results. (4 marks)
- f) Summarize FIVE roles of Economic agents in a mixed economic system (5 marks)
- g) Give FIVE reasons to justify the need to estimate the national income of a country (5 marks)

(TOTAL: 30 MARKS)

QUESTION TWO

- a) Using indifference curve analysis, explain the consumer equilibrium position. (6 marks)
- b) Using a diagram, explain the term expansion path as applied in production theory. (4 marks)
- c) Identify FIVE characteristics of a free market economy (5 marks)

(TOTAL: 15 MARKS)

QUESTION THREE

- a) The data provided below represent estimated national income figures for a hypothetical economy in millions of shillings:

Gross National Product (at market price)	4,590
Depreciation allowance	150
Indirect taxes less subsidies	423
Business taxes	267
Personal income taxes	863
Government transfers	942
Retained profit	344

Required:

- i. Net National Product at market price. (2 marks)
 - ii. Net National Product at factor cost. (2 marks)
 - iii. Personal income. (2 marks)
 - iv. Disposable income. (2 marks)
- b) Summarize seven barriers to geographical mobility of labour as a factor of production. (7 marks)

(TOTAL: 15 MARKS)

QUESTION FOUR

- a) Analyze three positive and three negative effects of a monopoly market structure in an economy. (6 marks)
- b) Distinguish between 'own price elasticity of demand' and 'cross elasticity of demand'. (4 marks)
- c) Summarize FIVE factors that will determine supply of labour (5 marks)

(TOTAL: 15 MARKS)

QUESTION FIVE

- a) Outline FIVE problems associated with the expenditure approach of measuring the national income of a country. (5 marks)
- b) Highlight FIVE factors that could lead to a rightward shift in the demand curve. (5 marks)
- c) Mention any FIVE ways in which the government could influence the allocation of economic resources in a country. (5 marks)

(TOTAL: 15 MARKS)