



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

**DATE: 30/07/2022**

**Time: 2 Hours**

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **QUESTION ONE (COMPULSORY)** in **section A**.
3. Answer **ANY TWO** Questions from **Section B**.

**SECTION A:(Compulsory)**

**QUESTION ONE**

(a) Pick the correct answer from the options provided below each question.

- i) In which of the following economic system does the government solely decide how to use the factors of production? **(1 mark)**
  - A. Free market economic system
  - B. Traditional economic system
  - C. Command economic system
  - D. Free-trade economic system
- ii) Macroeconomics deals with \_\_\_\_\_economic entities. **(1 mark)**
  - E. Aggregate
  - F. Individual
  - G. Micro
  - H. Socio
- iii) As per law of demand, quantity demand and price of a good are ..... related. **(1 mark)**
  - A. Directly
  - B. Inversely
  - C. Positively
  - D. Not

- iv) There is/are \_\_\_\_\_ number of sellers under perfect competition. **(1 mark)**
- A. One
  - B. Two
  - C. Few
  - D. Many

- v) A positive cross-price elasticity coefficient implies that **(1 mark)**
- A. Two products are substitutes
  - B. Two products are jointly demanded
  - C. Two products are complementary
  - D. Two products have no relations

- vi) Economics is the study of **(1 mark)**
- A. how society manages its unlimited resources.
  - B. how to reduce our wants until we are satisfied.
  - C. how society manages its scarce resources.
  - D. how to fully satisfy our unlimited wants.
  - E. how to avoid having to make trade-offs.

- vii) Which one of the following is a factor of production? **(1 mark)**
- A. Taxes
  - B. Revenue
  - C. Profit
  - D. Labor

(b) Explain the following terms as discussed in economics.

- i) Inflation **(3 marks)**
- ii) Law of Demand **(2 marks)**
- iii) Law of diminishing marginal utility **(3 marks)**
- iv) Economic growth **(3 marks)**
- v) Marginalism **(3 marks)**
- vi) Opportunity cost **(2 marks)**

(c) The price of blue band margarine reduces from Shs.250 where the quantity demanded is 50,000 to Shs 215 where the quantity demanded increases to 68,000.

**Required;**

Calculate the price elasticity of demand for blue band margarine using the above information and provide an interpretation. **(4 marks)**

- (d) The following demand and supply functions are provided for soko maize flour in Kenya during the year 2021.

$$P=6,800+0.85Q_s\text{-Supply Function}$$

$$P=12,000-1.55Q_d\text{-Demand Function}$$

**Required;**

Calculate the equilibrium price and equilibrium quantity for soko maize flour using the above information. **(3 marks)**

**(TOTAL 30 MARKS)**

**SECTION B:**

**(Answer ANY TWO Questions from Section B)**

**QUESTION TWO**

- (a) Explain three exemptions to the law of demand as discussed in economics. **(3 marks)**
- (b) Explain three strategies that can be adopted by the government of Kenya to reduce the level of unemployment. **(3 marks)**
- (c) The following demand and supply schedule represent the Demand and supply of Afia Juice in Kenya.

Price per litre	Quantity Demanded in Litres	Quantity Supplied in Litres
26	4,800	0
39	4,200	1,500
55	3,600	2,000
64	3,000	2,500
77	2,400	3,000
85	1,800	3,500
95	0	4,000

**Required;**

- i) Using the information provided in the above table plot the demand and supply curve on the same graph. (Note: A graph paper will be provided). **(4 marks)**

ii) From the plotted demand curve and supply curve what is the equilibrium price and equilibrium quantity for Afia juice **(1 mark)**

(d) You have been provided with the following information relating to products J,K and L.

Quantity (J)	Income
240	10,000
260	12,000

Quantity (K)	Income
150	10,000
180	12,000

Quantity (L)	Income
200	10,000
180	12,000

**Required;**

Calculate the income elasticity of demand for the three products J, K and L and explain which products are normal products and which products are inferior products. **(4 marks)**

**(TOTAL 15 MARKS)**

**QUESTION THREE**

(a) Explain two problems encountered when measuring national income. **(2 marks)**

(b) Explain the circular flow of income within the economy and provide a relevant diagram to accompany the explanation. **(3 marks)**

(c) Explain the following as discussed in macroeconomics;

i) Recession. **(2 marks)**

ii) Per capita income. **(2 marks)**

(d) Soko maize flour and Jogoo are two types of maize flours that are available within the Kenyan market.

**Required;**

Using the two products explain how the substitution effect would occur. **(2 marks)**

(e) Explain how the following events will affect the demand and supply in the market for wheat flour in Kenya. Provide demand and supply curves to accompany your explanation.

i) The price of fertilizer used in wheat farming has increased by 35% over the last few months because of Russia-Ukraine conflict. **(2 marks)**

- ii) The average income of consumers in Kenya has increased by 25% over the last one year. (2 marks)

(TOTAL 15 MARKS)

**QUESTION FOUR**

- (a) Explain three causes of inflation within the economy. (3 marks)
- (b) Explain how the output method can be used to measure the Gross Domestic Product for the Kenyan economy. (3 marks)
- (c) Explain three factors that would hinder economic growth development in developing countries like Kenya. (3 marks)
- (d) Explain three sources of government revenues. (3 marks)
- (e) The following information has been provided for the Kenyan economy during the year 2021.

	Shs Millions
Consumption	12,000
Investment	4,000
Government Expenditure	3,000
Exports	3,000
Imports	5,000

**Required;**

- Using the above information calculate the GDP for the year 2021. (3 marks)

(TOTAL 15 MARKS)

**QUESTION FIVE**

- (a) Explain three Principles/cannons of a good tax system. (3 marks)
- (b) Explain TWO difference between oligopoly markets and duopoly markets (3 marks)
- (c) The following information has been extracted from the consumers of Tropical Heat Crisps in Nairobi County.

Bags of Crisps Consumed	Total Utility	Marginal Utility
1	10	
2	25	
3	38	
4	47	

**Required;**

- i) Calculate the marginal utility from consuming 2 bags of Bags of Crisps, 3 bags of Bags of Crisps and 4 bags of Bags of Crisps. **(3 marks)**

(d) The following information is provided in relation to a product that is sold in the Kenyan market during the year 2021.

<b>Output</b>	<b>Price</b>	<b>Total Revenue</b>	<b>Total Cost</b>	<b>Marginal Revenue</b>	<b>Marginal Cost</b>
<b>(Units)</b>	<b>Shs (000)</b>	<b>Shs (000)</b>	<b>Shs (000)</b>	<b>Shs (000)</b>	<b>Shs (000)</b>
0	12	0	10		
10	11	11	17		
20	10	20	18		
30	9	27	21		
40	8	32	30		
50	7	35	48		

**Required:**

- i) Calculate the Marginal revenue (MR) for each output level **(2 marks)**
- ii) Calculate the Marginal cost (MC) for each output level **(2 marks)**
- iii) With reference to the table created above, has the profit maximization condition been satisfied at any level of output? Explain. **(2 marks)**

**(TOTAL 15 MARKS)**