



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

**DATE:** Tuesday, 3<sup>rd</sup> December 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 (Compulsory)**

- a) Explain the meaning of the following concepts as used in economics;
- i) Free market economic system **(1 mark)**
  - ii) Long-run production period **(1 mark)**
  - iii) Diseconomies of scale **(1 mark)**
  - iv) Derived demand **(1 mark)**
  - v) Perfect competitive market **(1 mark)**
- b) Distinguish between the following concepts;
- i) Gross Domestic Product and Gross National Product **(2 marks)**
  - ii) Normal profit and supernormal profits **(2 marks)**
- c) A demand equation for a good is given by  $Q_d = -3P + 5000$  and the supply equation for the same good is  $Q_s = 2P + 2000$ .  
Where  $Q_d$ ,  $Q_s$  and  $P$ , are the quantity demanded, quantity supplied (in bags) and price (in shillings) respectively.
- i. Find the equilibrium price and quantity **(4 marks)**
  - ii. If government in trying to control the price of the good fixes the price at Sh. 550, calculate and explain the type of excess which will result from the price control. **(4 marks)**
- d) Using relevant diagram(s), distinguish between demand pull inflation and cost push inflation. **(6 marks)**
- e) Outline **four** challenges associated with barter system of trade **(4 marks)**

- f) Identify **three** practical applications of the concept of price elasticity of demand. (3 marks)
- (Total 30 marks)**

### Question TWO

- a) Using separate diagrams, examine the effect of each on the equilibrium price and quantity of cement:
- i. An increase in the supply of houses. (*Hint: Demand for cement is a derived demand*) (4 marks)
  - ii. fall in the general level of consumer income by 20 percent. (4 marks)
- b) i. State the law of diminishing marginal returns. (3 marks)
- ii. What are the key assumptions that underlies this law? (4 marks)
- (Total 15 Marks)**

### Question THREE

- a) Country X is experiencing a high rate of youth unemployment. As an expert, recommend **five** measures that the country may take to address this situation. (10 marks)
- b) Highlight **five** difficulties that may be encountered when using expenditure approach to measure national income of a country. (5 marks)
- (Total 15 marks)**

### Question FOUR

- a) The following tables shows the cost function of a hypothetical firm. Fill in the missing figures. (10 marks)

Output	Fixed cost	Variable cost	Total cost	Average cost	Marginal cost
0	2000	0			
1	2000	500			
2	2000	900			
3	2000	1200			
4	2000	1600			
5	2000	2200			
6	2000	3000			
7	2000	4000			
8	2000	5200			
9	2000	6700			
10	2000	9000			

- b) Explain **five** factors that may cause a fall in supply of a good in the market. (5 marks)
- (Total 15 marks)**

### **Question FIVE**

- a) A Central Bank plays important roles in a country. Explain **five** such roles. **(10 marks)**
- b) Outline **five** features of perfect competitive market structure. **(5 marks)**