



**Strathmore**  
UNIVERSITY

**SCHOOL OF ENGINEERING AND COMPUTING SCIENCES**

**CNS /1105 - FUNDAMENTALS OF ECONOMICS**

**END OF SEMESTER ONE EXAMINATION**

**DATE:** Wednesday, 15<sup>th</sup> December 2021

**TIME:** 2 Hours

**INSTRUCTIONS:**

Answer ALL questions in Part I and any other TWO (2) questions in Part II.

**PART I: COMPULSORY**

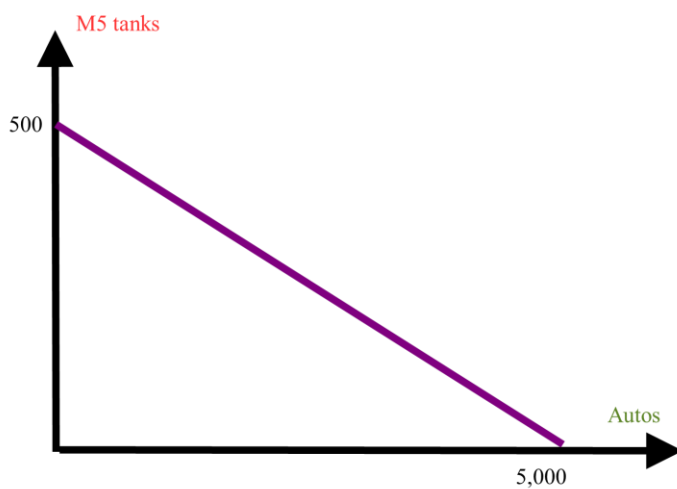
**Answer ALL questions in this section.**  
**marks)**

**(Total: 30**

**QUESTION 1**

Use the information from the production possibility curve of a hypothetical country X below to answer question 1a) and 1 b).

- a) Suppose Country X decides to produce 300 M5 Tanks, how many Autos will it produce?  
(2 marks)



- b) Explain what it means if country X decides to operate right on the production possibility curve above. **(2 marks)**
- c) Using a relevant example, explain the meaning of opportunity cost. **(2 marks)**
- d) Which of the following statements is CORRECT about how to compute Net National Product (NNP). **(2 marks)**
- i. Gross Domestic Product (GDP) plus depreciation.
  - ii. Gross National Product minus capital consumption allowance
  - iii. Gross National Product plus net factor income from abroad
  - iv. Gross Domestic Product minus depreciation.
- e) Distinguish between commodity money and fiat money. **(4 marks)**
- f) Expound on **4 (four)** sources of monopoly power. **(8 marks)**
- g) Discuss **5 (five)** causes of unemployment in Kenya **(10 marks)**

**PART II: ANSWER ANY TWO QUESTIONS IN THIS SECTION. (TOTAL: 40 MARKS)**

**QUESTION TWO**

- a) Discuss **5 (five)** monetary tools that the central bank may use to control money supply in an economy. **(10 marks)**
- b) You have been invited by the Ministry of Trade to advise on why they should erect trade barriers to imports into the country. Explain **5 (five)** arguments you would include in your report. **(10 marks)**

**QUESTION THREE**

- a) Consider the following information and figures of a hypothetical economy for the fiscal year ended on 30<sup>th</sup> June, 2020 in billions of shillings.

<b>Income from self-employment</b>	<b>500</b>
<b>Income from employment</b>	<b>100</b>
<b>Indirect Taxes</b>	<b>200</b>
<b>Net factor income from abroad</b>	<b>-100</b>
<b>Interest earned</b>	<b>220</b>
<b>Rent</b>	<b>300</b>
<b>Profit</b>	<b>50</b>
<b>Subsidies</b>	<b>100</b>
<b>Depreciation</b>	<b>50</b>

**Required:**

Compute the following:

- (i) Gross Domestic Product (GDP) at factor cost **(2 marks)**

- (ii) Net Domestic Product (NDP) at Factor cost (2 marks)
- (iii) Gross National Product (GNP) at both factor cost and market prices (4 marks)
- (iv) Net National Product (NNP) at factor cost (2 marks)

**b)** The trade balance between Kenya and country Y is in favour of the latter (country Y). Discuss **5 (five)** trade protectionism measures that Kenya could consider putting in place to tilt the trade balance in its favour (10 marks)

**QUESTION FOUR.**

- a) Explain **5 (five)** determinants of elasticity of demand. (10 marks)
- b) Explain **5 (five)** measures that a country experiencing high inflation rate can take to address the problem. (10 marks)

**QUESTION FIVE**

- a) Explain **5 (five)** causes of diseconomies of scale (10 marks)
- b) Expound on **5 (five)** factors that influence economic growth of a country. (10 marks)

**END**