



**STRATHMORE INSTITUTE OF MANAGEMENT AND TECHNOLOGY
DIPLOMA IN INTERNATIONAL RELATIONS
END OF SEMESTER EXAMINATION
DIR 1304: ECONOMICS AND INTERNATIONAL RELATIONS**

DATE: 26th August, 2022

TIME: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer Question **one (COMPUSLORY)** and **any other two questions**.
3. **DO NOT WRITE ON THE QUESTION PAPER.**

QUESTION ONE (COMPUSLORY)

(30 marks)

- a) Discuss three negative effects of inflation in an economy. (6 marks)
- b) List four factors that are responsible for the low levels of economic development experienced in developing countries (4 marks)
- c) Suppose that demand is given by the equation $QD=500 - 50P$, where QD is quantity demanded, and P is the price of the good. Supply is described by the equation $QS= 50 + 25P$ where QS is quantity supplied. What is the equilibrium price and quantity? (3 marks)
- d) Give any five reasons why national income statistics is important (5 marks)
- e) State any four properties of indifference curves (4 marks)
- f) With the aid of a diagram explain the production possibility frontier. (4 marks)
- g) Enumerate any four characteristics of perfect competition (4 marks)

QUESTION TWO

(15 marks)

- a) Suggest **FIVE** possible economic policies that could be adopted to reduce the balance of payments problems in developing countries. (10 marks)
- b) Enumerate five factors that affect price elasticity of supply (5 marks)

QUESTION THREE**(15 marks)**

- a) Enumerate FIVE roles of the government in a mixed economic system (5 marks)
- b) List any FIVE ways of enhancing geographical labour mobility (5 marks)
- c) The cost structure of a firm that manufactures gas cylinders is as given below:

Units of output	0	1	2	3	4	5	6
Fixed costs Sh '000'	10	10	10	10	10	10	10
Total Variable costs Sh '000'	0	5	12	21	30	40	47

Required:

Compute the average cost and marginal cost of producing each unit of output (5 mark)

QUESTION FOUR**(15 marks)**

- a) The following information relates to the demand of a commodity in relation to the income of a consumer:

Income (Sh.)	Demand (Units)
15,000,000	160
29,000,000	70

Required:

The income elasticity of demand of the commodity. Interpret your result. (3 marks)

- b) Use supply and demand curves to illustrate how each of the following events would affect the price of butter and the quantity of butter bought and sold:
- An increase in the price of margarine. (4 marks)
 - An increase in the price of milk. (4 marks)
 - A decrease in average income levels. (4 marks)

QUESTION FIVE**(15 marks)**

- a) Using a well labelled diagram, explain the consumer's utility maximizing position under ordinal approach (5marks)
- b) Evaluate three fundamental economic issues that a society has to address to minimise the problem of scarcity of resources. (6 marks)
- c) State four advantages of monopoly (4 marks)