



(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS
2019/2020 ACADEMIC YEAR
FIRST YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DIPLOMA IN EDUCATION

COURSE CODE: EDB 107

COURSE TITLE: FUNDAMENTALS OF ECONOMICS III

DATE: 13/11/2020 **TIME:** 8.00 AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBUCO observes ZERO tolerance to examination cheating
This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A (Compulsory)

(Q1) Write short notes on the following fundamental concepts:

- a) Scarcity and Choice (5 marks)
- b) Opportunity cost (5 marks)
- c) Production possibility frontier (5 marks)
- d) Positive and normative economics (5 marks)
- e) What factors limit consumer sovereignty? (10 marks)

(Total: 30 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

Q

- (2) a) Clearly explain the distinction between supply, demand and equilibrium price. (8 marks)
b) State and briefly explain any four main factors that may cause a fall in the supply of a good in the market.

(4 marks)

- c) The table below shows the demand and supply schedules for a product.

Price (Sh. Per Kg.)	Demand (Kg)	Supply (Kg.)
10	100	20
20	85	36
30	70	53
40	55	70
50	40	87
60	25	103
70	10	120

Required:

- Plot the demand and supply curves and determine the equilibrium price and quantity (8 marks)
(Total: 20 marks)

Q3

- a) Distinguish between own-price elasticity of demand and cross- elasticity of demand (10 marks)
- b) Briefly discuss the factors which affect the own price elasticity of demand (4 marks)
- c) Discuss the usefulness of these parameters in management and economic policy decision-making. (6 marks)

(Total: 20 marks)

Q4

- (a) (i) Define an indifference curve (2 marks)
- (ii) Illustrate and clearly explain the nature of indifference curves for perfect substitutes and for complementary goods (7 marks)
- (b) Explain the property of convexity to the origin of an indifference curve (4 marks)
- (c) Using the cardinalist approach of consumer behaviour, distinguish between income and substitution effects of a price rise for a normal good (7 marks)

(Total: 20 marks)

Q5

(2 marks)

a) Define inflation.

(10 marks)

b) What are the major causes of inflation?

(8 marks)

c) Explain the economic effects of a high rate of inflation.

(Total: 20 marks)