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(Knowledge for Development)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
SPECIAL/SUPPLEMENTARY EXAMINATION
FOR THE DIPLOMA IN EDUCATION**

COURSE CODE: EDB 104

COURSE TITLE: BASIC ECONOMICS

DATE: 16TH FEBRUARY, 2021 TIME: 8.00AM – 10.00AM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A COMPULSORY

QUESTION ONE

- a) State the arguments for monopolies (5 marks)
- b) State the Disadvantages of product differentiation (5 marks)
- c) Assume the following information represents the National Income Model of an 'Utopian' economy.

$$\begin{aligned}Y &= C + I + G \\C &= a + b(Y - T) \\T &= d + tY \\I &= I_0 \\G &= G_0\end{aligned}$$

Where $a > 0$; $0 < b < 1$
 $d > 0$; $0 < t < 1$

T = Taxes
I = Investment
G = Government Expenditure

- i) Explain the economic interpretation of the parameters a,b,d and t. (5 marks)
- ii) Find the equilibrium values of income, consumption and taxes. (10 marks)
- d) Discuss the three approaches used in measuring the national income of a country and show why they give the same estimate. (5 marks)
- (Total: 30 marks)**

SECTION B

Answer any two questions

QUESTION TWO

- a) Explain in detail what is meant by the term international trade? (5 marks)
- b) In the context of international trade, explain the concept of comparative advantage with specialization. (10 marks)
- c) Some processes lead to deficit and Some steps are necessary to correct the situation. Explain such steps (5 marks)
- d) Define and briefly explain Balance of Payments (BOP). (5 marks)
- (20 marks)**