(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAM

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DIB103

COURSE TITLE: ELEMENTS OF ECONOMICS

DATE: 21ST JULY 2022 **TIME:** 8.00AM - 10.00AM

INSTRUCTIONS TO CANDIDATES

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

2.Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

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)
d) What is an indifference curve? (3 marks)
e) Explain the main characteristics of indifference curves (7 marks)

(Total: 30 marks)

QUESTION TWO

a) Define elasticity of supply and briefly explain any five factors that influence the elasticity of supply. (10 marks)
b) Explain why elasticity of supply for agricultural commodities is low. (6 marks)
c) The demand for a commodity is twenty units when the prevailing market price equals eighty shillings per unit. However, when the price per unit rises to one hundred shillings, the quantity demanded rises to thirty units.

Required:

Calculate both arc and point elasticity of this commodity (4 marks)

(Total: 20 marks)

QUESTION THREE

a) (i) Define the term cross price elasticity of demand and clearly explain its value for substitutes complementary commodities

(5 marks)

(ii) Use the data in the table below to compute income elasticity of demand through the arc elasticity method:

Quantity (Units)	Income (Shs)	Price (Shs)
100	5000	16
120	6000	16

(2 marks)

b) Discuss any three practical applications of the concept of elasticity of demand in management and economic policy decision making (6 marks)

c) (i) The demand for a commodity is five units when the price is sh. 1,000 per unit. When price per unit falls to Sh. 600 the demand rises to six units.

Compute the point and arc elasticity of demand (4 marks)

(ii) State the main determinants of elasticity of demand (3 marks)

(Total: 20 marks)

QUESTION FOUR

a) Given that:

$Q_X = 9 - \frac{1}{2} P^2$

$Q_Y = 8P + \frac{1}{2} P^2$

Required:

i) Identify which of the two functions is a demand and a supply function. (4 marks)

ii) Compute the point elasticity of demand and the point elasticity of supply at the equilibrium position. (6 marks)

b) With the aid of diagrams, explain the importance of the concept of elasticity of supply. (10 marks)

(Total: 20 marks)

QUESTION FIVE

The managing director of My Kori-Lima Movie Theatre Ltd has hired you as a consultant to advise on the ticket – pricing strategy. As a basis for your recommendations you consider historical ticket sales data which seems to suggest the following ticket – sales elasticities:

Own – price elasticity	= -0.05
Refreshment price elasticity	= -0.12
Nairobi Population elasticity	= +0.65
Advertising elasticity	= +0.70

(a) The managing director is contemplating a moderate increase in ticket prices in order to increase revenue. Explain whether this is a good idea. (5 marks)

(b) The managing director is also contemplating a moderate increase in the advertising budget in order to increase revenue. Is this a good idea? Explain. (5 marks)

(c) How would you characterize the relationship between tickets and refreshments? (5 marks)

(d) If the population of Nairobi increased from 120,000 to 122,400 people in the next year, what would be the resulting impact on ticket demand? Assume all other factors are held constant.

(5 marks)

(Total: 20 marks)