



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DIB 103

COURSE TITLE: ELEMENTS OF ECONOMICS

DATE: 28/0/2017 **TIME:** 3.00 P.M- 5.00 PM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

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KIBUCO observes ZERO tolerance to examination cheating

SECTION A (COMPULSORY)

QUESTION ONE

(a) The table below shows the demand and supply schedule for a product. Use it to answer questions that follow:

Price (shs per kg)	Quantity demanded (kg)	Quantity supplied(kg)
10	100	20
20	85	36
30	70	53
40	55	70
50	40	87
60	25	103
70	10	120

- (i) On the same diagram, draw the demand curve and supply curve. (6mks)
- (ii) Using the graph in(a)(i) above, determine the equilibrium price and equilibrium quantity. (4mks)
- (iii) What would be the effect of fixing the price of the product at Sh. 40 on market demand and supply? (4mks)

(b) (i) What is price elasticity of demand? (2mks)

(ii) Tuzo milk processing firm recently increased the price of a packet of milk from sh.60 to sh.70 per packet, consequently the firm's daily sales decreased from 1600 to 1500 packets. Compute the Price elasticity of demand for the milk. (4mks)

(c) (i) Explain the meaning of mobility of factors of production. (2mks)

(ii) State the importance of mobility of factors of production in an economy. (4mks)

(d) Give any five differences between perfect competition and monopoly. (5mks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

- (a) Give three reasons why it is important to study economics. (3mks)
- (b) Distinguish between positive and normative economics. (2mks)
- (c) Highlight four characteristics of a free market system. (10mks)
- (d) State five advantage of a centrally planned economy. (5mks)

QUESTION THREE

- (a)(i) State the law of demand. (2mks)
- (ii) Describe four circumstances under which a reduction in the price of a product is likely to cause a decrease in quantity demanded. (8mks)
- (b) With an aid of a well labelled diagram, describe the price and output determination of a loss making firm under perfect competition. (10mks)

QUESTION FOUR

Developing countries have experienced persistent and rising inflation and unemployment.

- (a) Define the terms:
 - (i) Inflation
 - (i) Unemployment. (4mks)
- (b) Explain any four negative effects of inflation in an economy. (8mks)
- (c) Highlight four economic policies that may be used to reduce the magnitude of unemployment in Kenya. (8mks)

QUESTION FIVE

- (a) Distinguish between increasing returns to scale and decreasing returns to scale. (2mks)
- (b) (i) State the law of diminishing returns. (3mks)
- (ii) Using a suitable diagram, explain the three stages of production. (15mks)