



The Co-operative University of Kenya

END OF SEMESTER EXAMINATIONS AUGUST-2018

**EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION /
PURCHASING & SUPPLIES MANAGEMENT / HUMAN RESOURCE
MANAGEMENT / ACCOUNTING & FINANCE / PUBLIC RELATIONS /
MARKETING / MICRO FINANCE / CATERING & HOTEL
(YR II SEM I)**

UNIT CODE: DMHR 1203/ DMBA 1201 / DMHR 1103

UNIT TITLE: GENERAL ECONOMICS

DATE: 20TH AUGUST, 2018

TIME: 2:00 PM – 4:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) Explain the following terms as used in economics
- Scarcity
 - Opportunity cost
 - Inferior goods
 - Precautionary motive
 - Demand pull inflation (5 Marks)
- (b) Explain the reasons why it is necessary to measure the national income of a country (5 Marks)
- (c) Distinguish between the following terms as used in economics
- Macroeconomics and microeconomics
 - Positive economics and normative economics
 - Scarcity and choice
 - Demand and supply
 - Producer goods and consumer goods (5 Marks)
- (d) Given the quantity demanded (Q_d) of a commodity is $(50-2P)$ and the quantity supplied (Q_s) of the same commodity is given as $(10+3P)$; you are required to Determine:
- The equilibrium price for the commodity (2 Marks)
 - The equilibrium quantity demanded and supplied of the same commodity? (3 Marks)
- (e) Calculate the price elasticity of supply for a commodity is as a result of a price fall from Kshs 3. The quantity supplied of the same commodity falls from 1.5 Million units to 900,000 units. (5 Marks)
- (f) County X is reputed to have one of the high levels of income inequalities. Explain the measures that the country would take to remedy the situation (5 Marks)

QUESTION TWO

- (a) Define the term “Economics” and highlight the salient features of the definition (5 Marks)
- (b) Clearly highlight the peculiarities of land as a factor of production (5 Marks)

- (c) Apart from the price mechanisms, what are the other methods of determining prices of goods and services? (10 Marks)

QUESTION THREE

- (a) Distinguish between the following economics terms
- i. Absolute advantage theory and comparative advantage theory
 - ii. Free Trade and protectionism
 - iii. Monetary policy and fiscal policy
 - iv. Money market and capital market (10 Marks)
- (b) With the evolution of money as the modern acceptable medium of exchange, economies have gained in terms of rapid expansion growth. Explain the merits of a Modern Monetary System (10 Marks)

QUESTION FOUR

- (a) In a free market system, the prices of goods and services are determined through the forces of demand and supply, highlight the limitations to the working of prices mechanisms and consumers' sovereignty in less developed countries (10 Marks)
- (b) Elaborate on the assumptions of the ordinal utility approach theory (6 Marks)
- (c) When Mwaura's income changed from Kshs 12,000 to Kshs 15,000 per week, his demand for beans changed from 350Kgs to 450 Kgs. Calculate the income elasticity of demand and with reasons, state the type of a community (4 Marks)

QUESTION FIVE

- (a) Explain the relationship between scarcity , choice and opportunity cost (10 Marks)
- (b) Outline FIVE (5) effects of excess supply on equilibrium price and quantity (10 Marks)