The Co-operative University of Kenya
SUPPLEMENTARY/SPECIAL EXAMINATION AUGUST-2019

DIPLOMA EXAMINATION

UNIT CODE: DMHR 1203

UNIT TITLE: GENERAL ECONOMICS

DATE: 28TH AUGUST, 2019   **TIME: 9:00 AM – 11:00 AM**

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

QUESTION ONE
a) What are the advantages of using the price mechanism as a means of allocating scarce resources? (10 marks)
b) With the sue of a well labelled diagram, distinguish between labour intensive and capital intensive techniques of production and explain any four factors that determine choice of production techniques. (10 marks)
c) More countries are currently opting for a free market economic system as opposed to controlled system. Explain the advantages of this economics system (5 marks)
d) A hypothetical closed economy has a national income model of the form $Y=C+I+G$, where $C=30+0.8Y$ and I and G are private investment and government expenditures equilibrium level of income for the economy. (5 marks)

QUESTION TWO
a) Explain the features of a monopoly market (3 marks)
b) With the use of a well labelled diagram, explain equilibrium under monopoly competition. (7 marks)
c) Explain the circumstances under which a monopolist can profitably apply discrimination in the marked. (10 marks)

QUESTION THREE
a) Explain five types of unemployment and highlight the methods/policies that can be adopted to combat them. (10 marks)
b) Developing countries have experienced persistent and rising debt problems for a long time. Explain the major causes of these problems. What policies can be adopted to combat the debt burden? (10 marks)

QUESTION FOUR
a) Using a well-illustrated diagram, explain the law of diminishing returns (5 marks)
b) Of what importance is this law in economics? (10 marks)
c) Explain the five barriers to occupational mobility of labor. (5 marks)

QUESTION FIVE
a) Discuss the major causes of demand curve shifts. (7 marks)
b) Suppose in one Kenyan town, the quantity demand of margarine at Ksh.200 per kilogram rises from 10,000 to 15,000 packets ad the price of bread decreases from Ksh. 30 to Ksh.20 per loaf. Compute cross elasticity of demand and interpret your results. (5 marks)
c) Discuss some practical economics applications of the concept of elasticity of demand. (8 marks)