

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COOPERATIVES MANAGEMENT**

BCOP 251: COOPERATIVE ECONOMICS

STREAMS: BCOP

TIME: 2 HOURS

DAY/DATE: MONDAY 29/03/2021

8.30 A.M. – 10.30 A.M.

QUESTION ONE

- (a) Cooperatives have a crucial role in economic development of a nation. Discuss this statement and base your answer on sustainable development goals. (10 marks)
- (b) Suppose the utility function of the consumer consuming two products X and Y with income Ksh. 400 is given by $U = 2X^{0.7}Y^{0.3}$
If the price of X is Ksh. 10 and the price of Y is Ksh. 20,
- (i) Calculate the utility maximizing levels of consumption of good y and x (7 marks)
- (ii) Find the maximum utility (3 marks)
- (c) Discuss the following theories of consumption. (10 marks)
- (i) Relative income hypothesis
- (ii) Lifecycle income hypothesis

QUESTION TWO

Given the following information about a certain economy.

$C = 50 + 0.9Y^d \rightarrow$ Consumption function

$I = 150 - 5r \rightarrow$ Investment functions

$T = 100 \rightarrow$ Tax functions

$G = 100 \rightarrow$ Government expenditure

$$X = 20 \rightarrow \text{Exports}$$

$$M = 10 + 0.1Y \rightarrow \text{Imports}$$

$$M_d = 0.2Y - 10r \rightarrow \text{Money demand}$$

$$M_s = 100 \rightarrow \text{Money supply}$$

Calculate the following

- (a) Derive the IS and LM schedules. (4 marks)
 - (b) Calculate equilibrium consumption, investment, imports and money demand. (4 marks)
 - (c) If government expenditure is increased by 300, what is the effect on equilibrium income? (3 marks)
2. Discuss the reasons why we need a public sector. (9 marks)

QUESTION THREE

- (a) Using a well labeled diagram, explain the difference between income and substitution effect following a decrease in the price of a normal good. (10 marks)
- (b) A change in investment spending can cause the C+I line to shift from equilibrium at full employment position. Illustrate and discuss the scenarios when this can occur and explain the various interventions that can bring back this economy to its full employment position. (10 marks)

QUESTION FOUR

1. Distinguish between the following concepts. (10 marks)
 - (i) Tax evasion and tax avoidance
 - (ii) Expansionary and contractionary monetary.
 - (iii) Marginal propensity to save and average propensity to save
 - (iv) Structural and frictional unemployment
 - (v) Progressive and regressive taxes
 2. A manager has been given Ksh. 40,000 to spend on development and promotion of a new product Q. It is estimated that if X thousand shillings is spent on promotion then $Q = 40X^{\frac{3}{2}}Y$ quantity of output will be sold. How much money should be allocated for development and how much for promotion in order to maximize sales? (10 marks)
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