

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF PROCUREMENT AND LOGISTICS**

BPLM 101: ECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 31/3/2021

8.30 AM – 10.30 AM

INSTRUCTIONS:

- Answer Question One (Compulsory) and any other Two questions.

a) Differentiate between the following;

- Induced and autonomous investment. [2 Marks]
- Average propensity to consume and marginal propensity to consume [2 Marks]
- Per capita income and personal income [2 Marks]
- Giffen goods and inferior goods [2 Marks]
- Disguised unemployment and underemployment [2 Marks]

b) Explain the major goals of macroeconomics policy. [4 Marks]

c) Discuss the drawbacks associated with per capita income as a measure of social welfare of people. [6 Marks]

d) Given the following demand and supply functions

$$Q_{d1} = 8 - 2p_1 + p_2$$

$$Q_{d2} = 16 + p_1 + p_2$$

$$Q_{s2} = -1 + 2p_2$$

$$Q_{s1} = 5 + 3p_1$$

Determine the equilibrium price and quantity for the model. [4 Marks]

e) Assume that a consumption function is given by the following equation:

$$C = 700 + 0.75Y^d$$

Required:

- (i) Draw the function [1 Mark]
- (ii) What does value 700 stand for? [1 Marks]
- (iii) What is the value of MPC? [1 Mark]
- (iv) Work out the MPS. [1Marks]
- (v) What are the determinants of consumption? [2 Marks]

QUESTION TWO

(a) Given the total cost function below:

$$TC=1000 + 100Q -15Q^2 +Q^3$$

- (i) Determine average fixed cost when the output (Q) is 10 units [2 Marks]
 - (ii) Compute the total and average costs at the level of (10 units) [4 Marks]
 - (iii) What is the level of marginal cost at the level of 12 units of production.[4 Marks]
- b). Discuss the circular flow of income model for a three sector economy. Hence discuss leakages and injections from the model. [10 Marks]

QUESTION THREE

- i. Discuss the causes and effects of inflation. [10 Marks]
- ii. Discuss the exceptions to the law of demand. [5 Marks]
- iii. Different countries have different sizes of their national income. Explain the reason for the differences in sizes of national income. [5 Marks]

QUESTION FOUR

- i. Explain the effects of a fall in supply on the price and output of a commodity using an illustration. [10 Marks]
 - ii. Developing countries have experienced persistent and rising unemployment. Explain the major causes and suggest economic policies that may be used to reduce the magnitude of the problem. [10 Marks]
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