**CHUKA**            **UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF HOSPITALITY MANAGEMENT**

**BCHM 400: HOTEL ECONOMICS**

**STREAMS: BCHM**                                   **TIME: 2 HOURS**

**DAY/DATE: FRIDAY 07/12/2018**                  **8.30 A.M. – 10.30 A.M.**

**INSTRUCTIONS: Answer question ONE and any other TWO questions**

**SECTION ONE: COMPULSORY (30 MARKS)**

**QUESTION ONE**

(i)     By use of diagram explain the bandwagon effect on demand of Pizza from Hellen's restaurant.          [4 marks]

(ii)    Research and development results in technical change. Discuss four barriers that hinder enjoyment of such change. Give examples.          [8 marks]

(iii)   Draw and explain a diagram of project maximizing firm.          [8 marks]

(iv)   James and john are trained as Hotel manager and both have jobs but are paid different salaries. Explain six factors responsible for this wage discrepancy.          [10 marks]

**QUESTION TWO**

(i)     Differentiate economies of scale and economies of scope          [4 marks]

(ii)    Discuss the sources of economies of scale from a static view          [10 marks]

(iii)   Explain how dynamic economies can improve the profitability of a firm.     [6 marks]

**QUESTION THREE**

(i)     Explain the causes of vertical integration          [8 marks]

(ii)    With examples, explain how diversification aid in growth of a firm.          [6 marks]

(iii)    With a diagram, explain the effects of advertising         [8 marks]

## QUESTION FOUR

(i)    Explain the following terms giving example in each case

      (a) Public good         [2 marks]

      (b) Externality         [2 marks]

(ii)    By use of diagram, show how government can use tax to control pollution.   [8 marks]

(iii)    The Kenyan labour market is characterized by frequent incidents of strike by workers agitating for a higher pay. Explain four bases on which to base their claim.   [8 marks]

## QUESTION FIVE

(i)    Discuss five factors that are responsible for wage differentials between jobs.

      [10 marks]

(ii)    Explain five determinants of innovation in an industry       [5 marks]

(iii)    Discuss four ways in which government can assist to improve quality of products.

      [5 marks]

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