

**CHUKA**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

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

**BCOP 251: COOPERATIVE ECONOMICS**

**STREAMS: BCOP**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 04/12/2018**

**8.30 A.M. – 10.30 A.M.**

**INSTRUCTIONS:**

**Answer question one and any other two questions**

**QUESTION ONE**

1. Discuss the importance of cooperatives to national development in reference to the Sustainable Development Goals (SDGs). (10 marks)
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  $X$  thousands shillings is spent on development and  $Y$  thousand shillings 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? (6 marks)

3. Given the following production function

$$Q = \frac{3L^2K^3 + K^5}{LK^2}$$

- (i) What is a homogenous function? (2 marks)
  - (ii) Find the degree of homogeneity and comment on the returns to scale. (4 marks)
4. “An expansionary monetary policy may only accelerate the rate of inflation and cause a higher level of unemployment in the long run.” Explain (8 marks)

**QUESTION TWO**

1. Explain the assumptions of ordinal utility theory and discuss its weaknesses. (10 marks)
2. 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 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)

**QUESTION THREE**

1. With the help of diagrams, explain the effect of the following disturbances on variables in the classical macroeconomic model.
  - (i) Increase in money supply (5 marks)
  - (ii) Increase in demand for labour (5 marks)
  - (iii) Increase in labour supply (5 marks)
2. Discuss the reasons why there's need for a public sector in a country. (5 marks)

**QUESTION FOUR**

1. Highlight the ways in which the central bank controls the amount of money in circulation within an economy. (6 marks)
  2. Using a well labeled diagram, explain the difference between income and substitution effect following a decrease in the price of a normal good. (8 marks)
  3. Discuss the advantages and disadvantages of direct taxes. (6 marks)
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