BCOP 251

CHUKA   UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COOPERATIVE MANAGEMENT

BCOP 251: COPERATIVE ECONOMICS

STREAMS: BCOP   **TIME: 2 HOURS**

DAY/DATE: MONDAY 09/12/2019   **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a)   Discuss the importance of cooperatives to national development   [10 marks]

(b)   A firm has the following production and cost function:

Production function: $Q = K^{¼} L^{¾}$

Cost function: $2K + 4L = 40$

    (i)   Set up a constrained maximization problem from the information given

[2 marks]

    (ii)   Construct the corresponding Lagrangian function and compute the optimum
    values or critical values of L, K and Q   [8 marks]

(c)   Highlight and discuss the expansionary monetary policy measures taken by the
government of a country   [10 marks]

QUESTION TWO

(a)   Explain the assumptions of ordinal utility theory and discuss its weakness   [10 marks]

(b)   Suppose the utility function of the consumer consuming two products X and Y with
incomes 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]

QUESTION THREE

(a)   Discuss the reasons why there is need for a public sector in a country   [6 marks]

(b)   Discuss the criticisms of classical macroeconomic pillars   [8 marks]

(c)   Suppose a consumers income is kshs. 280 and uses this income to buy two goods X and

        Y. I f the prices of X is kshs. 2 a unit and that of y is kshs. 5 a unit

        (i)   State the budget equation   [2 marks]

        (ii)   Compute the slope of the budget line   [2 marks]

        (iii)   Compute the intercepts of the budget equation. Illustrate your answer   [2 marks]

QUESTION FOUR

(a)   Using a well labeled diagram, explain how the life cycle hypothesis works   [5 marks]

(b)   Discuss the advantages and disadvantages of direct taxes   [10 marks]

(c)   Given the following production function

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

        (i)   What is homogenous function   [1 mark]

        (ii)   Find the degree of homogeneity and comment on the returns to scale   [4 marks]