CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

CHUKA & THARAKA

**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF EDUCATION ARTS**

DPLM 0141: INTRODUCTION TO ECONOMICS

STREAMS: DPLM   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 05/12/2017   **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:

QUESTION ONE

(a)   Given the following functions:

$$d = a - bp$$

$$d = -c + bp$$

      (i)   Identify the demand and supply function giving reasons for each.   [2 marks]

      (ii)   Determine the equilibrium market price and quantity.   [4 marks]

      (iii)   Present the solution in (ii) above in a diagram.   [2 marks]

(b)   Briefly explain the following terms as used in economics.   [10 marks]

      (i)   Scarcity and opportunity cost

      (ii)   Disposable incomes and per capita income

      (iii)   GDP and GNP

      (iv)   Distinguish between price discrimination and price rigidity

(c)   Discuss reasons why demand curve is downward sloping.   [3 marks]

(d)   Discuss the usefulness of the concept of elasticity.   [6 marks]

(e)   Distinguish between withdrawals and injections in the circular flow of income.[2 marks]

QUESTIONTWO

    (i)   Per capita income is not a good measure of national well-being people in an

        economy. Discuss.   [8 marks]

    (ii)   Demand curve for an oligopolistic firm is kinked using a well labeled diagram,

        discuss.   [6 marks]

(iii)   Discuss 5 types of unemployment in an economy.   [6 marks]

QUESTION THREE

(a)   Using indifference curve and the budget live graphically discuss the point of equilibrium of the consumer.   [6 marks]

(b)   Explain the monetary policies used by government to curb the problem of inflation.   [6 marks]

(c)   Distinguish between monopolistic and perfect competitive market structures.[2 marks]

(d)   Discuss 6 assumptions made under cardinal utility approach.   [6 marks]

QUESTION FOUR

(a)   Given the following equation

$Y = 500-0.5 P_y – 2.3 P_w + 0.2 P_x + 0.0037 I$

Suppose further that you have been given

$Q_y = 15,000$ $P_y = 30, 000$ $I = 60,000$

Compute;

(i)   Own price elasticity   [2 marks]

(ii)   Cross price elasticity   [6 marks]

(iii)   Income elasticity of demand   [2 marks]

(b)   Discuss three motives for holding money according to Keynes.   [6 marks]

(c)   Discuss 4 major determinants of price elasticity of demand.   [4 marks]