

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF CATERING AND HOTEL MANAGEMENT

BCHM 400: HOTEL ECONOMICS

STREAMS: BCHM Y4S1

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/12/2017

11.30 A.M - 1.30 P.M.

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INSTRUCTIONS:

- Answer Question ONE and any other TWO Questions.

QUESTION ONE [30 MARKS]

- (a) Explain the following terms as used in hotel economics and give examples where necessary. [10 Marks]
- (i) Perfect competition
  - (ii) Hotel demand
  - (iii) Tourism satellite accounts
  - (iv) Short run and long run
  - (v) Multipliers
- (b) The hotel business exists in a competitive market with exception of a few. Discuss this statement. [10 Marks]
- (c) Discuss the pricing strategies that hotel businesses use and the factors that determine the strategy to be adopted. [10 Marks]

QUESTION TWO [20 MARKS]

The following two functions represent the demand and supply function in the hotel market

$$Q_1 = 3550 - 266p \quad Q_2 = 1526 + 240p$$

- (i) Identify the demand function and the supply function. [2 Marks]
  - (ii) Calculate equilibrium price and quantity in the market. [6 Marks]
- (b) With the aid of a diagram, discuss 2 exceptions to the law of demand with regard to hotel demand. [4 Marks]

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(c) Discuss 4 factors that determine the price elasticity of hotel demand. [8 Marks]

**QUESTION THREE [20 MARKS]**

(a) Given that  $AR=4-0.25Q$  and  $AC=0.25Q+2-0.3Q+0.05Q^2$

(i) From the cost function identify the fixed cost and the variable cost. Give two examples of fixed and variable costs in the hotel business. [5 Marks]

(ii) Find the level of output (quantity) and price that maximizes profit for the firm above. [10Marks]

(b) Give 2 types of profits and examples in each. [5 Marks]

**QUESTION FOUR [20 MARKS]**

(a) Define the following terms: [5 Marks]

- (i) National income
- (ii) Economic growth and economic development
- (iii) Exchange rate and balance of payment

(b) Give a detailed account of how the growth of hotels affects the economic growth of a country. [5 Marks]

(c) Discuss the various components of the balance of payments and highlight the effects of hotels on the balance of payments. [10 Marks]

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