CHUKA  **UNIVERSITY**

SUPPLEMENTARY/ SPECIAL EXAMINATIONS

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

BCHM 411: HOTEL ECONOMICS

STREAMS: BCHM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY03/02/2021 **8.30 AM – 10.30 AM**

INSTRUCTIONS:

Answer Questions One and Any Other Two Questions

SECTION ONE: COMPULSORY (30 marks)

QUESTION ONE.

(a) By use of a diagram explain how market prices restore equilibrium in a buyer market and in a seller market. (10mks)

Consider a project maximizing form operating under conditions of perfect competition. Suppose the market price is Ksh.50 and the firm faces a total cost fraction given by $TC= 10 + 5Q^2$

(i) Calculate the maximum profit that this firm can make. (7marks)

(b) By use of a diagram explain the bandwagon effect on demand of Pizza from Helen's restaurant. **(7marks)**

(c) Explain 3 uses of price elasticity of demand (6marks)

QUESTION TWO.

i. Explain the causes of vertical integration. **(8marks)**

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

iii. Differentiate Economies of scale and economies of scope. **(6marks)**

QUESTION THREE.

i. With a diagram, explain the effects of advertising. **(4marks)**

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

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

QUESTION FOUR.

i. 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. **(8marks)**

ii. Discuss the sources of economies of scale from a static view. **(6marks)**

iii. Explain how dynamic economies can improve the profitability of affirm. **(6marks)**

QUESTION FIVE.

1. Explain using a diagram, explain the kinked demand curve.

   Examine why a monopolist is a price marker.

   Consider a monopolist who faces the following demand and TC functions

   $P = 140 - 2Q$ $tc = 5 + 5Q^2$

   i. Calculate Pe and Qe (6marks)

   ii. Maximum profit (4marks)

   iii. Explain five determinants of innovation in an industry. **(5marks)**

   iv. Discuss four ways in which government can assist to improve quality of products. **(5marks)**
