

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCHM 411: HOTEL ECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: FRIDAY 13/12/2024

8.30 A.M – 10.30 A.M

INSTRUCTIONS:

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Answer Question **ONE (Compulsory)** and any other **TWO** questions.

QUESTION 1 (30 marks)

- a) Using appropriate examples and diagrams where necessary, explain the following terms as used in Economics (10marks)
- Giffen good and inferior good
 - Marginal utility and marginal product
 - Production possibility frontier
 - Isoquants and indifference curves
 - Supply curve and supply schedule
- b) Briefly explain the main characteristics of a perfect competitive market in the Hospitality industry. (5 marks)
- c) Discuss the main factors of production in the hostel hospitality industry. (5 marks)
- d) Suppose you are given the following demand function for a certain commodity in the hospitality industry.

$$Q = 1000 - 5P + 10P_X - 2P_Z + 10Y$$

Where, $P = 80$, $P_X = 50$, $P_Z = 150$ and $Y = 20,000$, P_X is the price of X, P_Z is the price of Z.

Required:

- i. Define price elasticity of demand (2marks)
- ii. Calculate price elasticity of demand (2marks)
- iii. Calculate cross elasticity with respect to commodity Z and comets (4 marks)
- iv. Calculate Income elasticity (2 marks)

QUESTION 2 (20 marks)

- a) Define the term price elasticity of supply and explain factors that determine price elasticity of supply. (10 marks)
- b) Using a well-labeled diagram, explain the Production Possibility Frontier (PPF) or Production Possibility Curve (PPC) as applied in the hospitality industry. Use the PPC to evaluate the efficiency of product reallocation when a hotel aims to increase output. (5marks)
- c) Forecasting demand is important in the hospitality industry because it helps hotel managers plan production and sales. What are the features of a good forecasting system? (5 marks)

QUESTION 3(20marks)

- a) In recent years, companies have been merging to form one enterprise. What are the reasons for such mergers in the hotel industry? (4 marks)
- b) Discuss any FOUR pricing methods that can be applied in the hospitality industry. (8 marks)
- c) Explain FOUR main determinants of price elasticity of supply in the hospitality industry. (8 marks)

QUESTION 4(20marks)

- a) Define and briefly explain the characteristics of the following market in the hospitality industry
 - i. Monopoly (5marks)

- ii. Oligopoly (5 marks)
 - iii. Monopolistic competition (5 marks)
 - b) With the aid of a well-labeled diagram, explain the effect of an increase in the number of holiday hotel bookings on the demand for rooms and catering services (5 marks)
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