MACHAKOS UNIVERSITY

University Examinations for 2017/2018

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

DPS 102: PRINCIPLES OF ECONOMIC

DATE: 18/12/2017 **TIME: 2.00-4.00 PM**

INSTRUCTIONS

Answer Question **ONE** and any other **TWO** questions

QUESTION ONE

a) Differentiate a private enterprise economy from a mixed economy and highlight the flaws of the private enterprise economy (8 marks)

b) i. Distinguish between income elasticity of demand and own price elasticity of demand (3 marks)

ii. What is the expected sign for income elasticity of demand? Support your answer (3 marks)

iii. Given two goods X and Y, and it is further known that 20 units of X are demanded when the price of Y is 10 units, determine the cross price elasticity of demand of good X if 18 units of X are demanded when the price of Y increase to 15 units. Comment on your answer (7 marks)

c) Define the following terms

i. Capital formation (2 marks)

ii. Law of diminishing returns (2 marks)

iii. Demand equation (1 mark)

iv. Average product (2 marks)

v. Marginal product (2 marks)

QUESTION TWO

a) Using a well labelled diagram explain the three stages of production (10 marks)

b) State the assumptions underlying the law of diminishing return (4 marks)

c) Highlight any six determinants of demand (6 marks)

QUESTION THREE

a) i. One of the features of an oligopolistic firm is that it has a kinked demand. With the aid of a well labelled diagram, account for this shape (8 marks)

ii. State other features of an oligopoly (4 marks)

b) Explain any four factors that influence elasticity of supply (8 marks)

QUESTION FOUR

a) List any five roles played by an entrepreneur in production (5 marks)

b) Using a well labelled diagram, explain the effect of increase in consumers' income on equilibrium price and output (6 marks)

c) Outline the reasons for the downward sloping demand curve (5 marks)

d) State the law of demand (2 marks)

e) State the factors of production (2 marks)

QUESTION FIVE

a) With the aid of well labeled diagrams, differentiate price floor from price ceiling(12 marks)

b) In each case, draw a diagram to reflect the following

i. Perfectly elastic demand (2 marks)

ii. Perfectly inelastic supply (2 marks)

iii. Unitary elasticity of demand (2 marks)

iv. Unitary elasticity of supply (2 marks)