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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 17th August, 2023
Time: 8.30am –10.30am

KBA 2113 - FUNDAMENTALS OF ECONOMICS

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Assume the quantity demanded of maize floor has increased within Nairobi County. Illustrate and discuss the effect of an outward shift of the demand curve on quantity demanded and price (8 Marks)
- b) The total cost equation in the production of bacon at some hypothetical factory is
 $C = 1000 + 100Q - 15Q^2 + Q^3$
Cost (C) is measured in Kenya shillings while bacon in metric tonnes.
- i) Compute the total and average costs at output levels of 10 and 11 tones. (4 Marks)
- ii) What is the marginal cost of the 12th tone? (4 Marks)
- iii) Sketch the shape and explain relationship between average cost and marginal cost curves in the production of bacon (10 Marks)
- c) Clearly distinguish between monopoly and monopolistic market structures. (4 Marks)

QUESTION TWO (20 MARKS)

- a) Discuss the assumptions of cardinal approach clearly stating the relevance of each in determine the consumer behavior (10 Marks)
- b) Using an illustration explain fully the stages involved in the production of any software by a firm (10 Marks)

QUESTION THREE (20 MARKS)

- a) Distinguish between an inferior good and a normal good giving examples in each case. (4 Marks)
- b) Using an illustration explain the concept of resource scarcity and discuss its importance in our daily lives. (7 Marks)
- c) There exists a situation where demand curve may slope upwards instead of downwards from left to right. Explain the conditions that may lead to the existence of abnormal demand curves (9 Marks)

QUESTION FOUR (20 MARKS)

- a) Define the term elasticity of demand and state at least two types of elasticity of demand. (4 Marks)
- b) Explain the usefulness of the concept of elasticity in an economy. (6 Marks)
- c) Suppose you are provided with the following demand equations of a certain good
 $Q = 1000 - 5P + 10P_x - 2P_z + 0.1Y$
Where $P = \text{Kshs. } 80$, $P_x = \text{Kshs. } 50$, $P_z = \text{Kshs. } 150$ and $Y = \text{Kshs. } 20,000$
 P_x – price of good X, P_z – price of good Z, Y – income level and Q – quantity of good

Required, Determine;
 - i) Price elasticity of demand and interpret its value (3 Marks)
 - ii) Cross elasticity of demand with respect to commodity z and comment on the type of goods in question (4 Marks)
 - iii) Income elasticity and comment (3 Marks)

QUESTION FIVE(20 MARKS)

- a) Describe the three types of returns to scale a firm may realize during production processes (6 Marks)
- b) Discuss characteristics of a perfectly competitive market structure (4 Marks)
- c) The demand, supply and total cost function for a commodity P are expressed as follows
 $Q = 80 - 2P$
 $Q = -40 + 3P$
 $TC = 2Q^2 - 300$
Required, Determine;
 - i) Identify the supply and demand functions and give a reason (2 Marks)
 - ii) The equilibrium price and quantity of the commodity (2 Marks)
 - iii) Total revenue generated from the sale of commodity P (2 Marks)
 - iv) Total profit realized and quantity of P that maximizes the profit of the firm (4 Marks)