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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR FIRST YEAR, FIRST SEMESTER EXAMINATION FOR THE BACHELOR OF ECONOMICS AND FINANCE

Date: 5th December, 2024 Time: 11.30am –1.30pm

KEC 2100-PRINCIPLES OF ECONOMIC MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

XYZ Ltd., a medium-sized manufacturing firm, has been experiencing declining profits despite an increase in production levels. The management team has identified the following challenges:

- Rising input costs due to inflationary pressures.
- Declining demand for their product because of competition and a shift in consumer preferences.
- Inefficiencies in production processes leading to higher operational costs.
- Issues with managing the balance of payments, particularly with international suppliers and buyers.
- To address these challenges, XYZ Ltd. has decided to revisit its operational strategies. As a newly hired economic consultant, you are tasked with helping the management team integrate economic principles to improve decision-making and enhance performance
- a) Define economics and explain how it applies to the operational challenges faced by XYZ Ltd (5 marks)
- b) Discuss the scope and method of economic analysis that you would employ to analyze XYZ Ltd.'s situation (5 marks)
- c) Using the theory of the firm, analyze the inefficiencies in XYZ Ltd.'s production process. (5 marks)
- Identify the type of market structure XYZ Ltd. operates in and its implications for strategic decision-making.
 (5 marks)

- e) State the condition for profit maximization for a firm XYZ operating in a perfectly competitive market during the short run (5 marks)
- f) What is the difference between diminishing returns and decreasing returns to scale in relation to XYZ firm (5 marks)

QUESTION TWO (20 MARKS)

a)	Define and briefly explain the law of diminishing returns	(5 marks)
b)	Discuss with the help of a graph the three stages associated with this law	(6 marks)
c)	Explain the factors that influence the price elasticity of demand	(6 marks)
d)	Graphically demonstrate the consumer surplus	(3 marks)

QUESTION THREE (20 MARKS)

A firm in perfect competition sells its products at the price of 50. If total cost is given by the following function

$$TC = 3Q^2 + 2Q + 5$$

a) What level of output would maximize this firm's profit? (5 marks) P = MC P = 50, MC = 6Q + 250 = 6Q + 2, 6Q = 48, Q = 8

b)	What will the level of profit be at that output level?	(5 marks)
c)	Define the concept of consumer sovereignty and discuss its limitation.	(5 marks)

d) Discuss with the help of a graph the three stages associated with this law (5marks)

QUESTION FOUR (20 MARKS)

Explain graphically the effect of the following changes on the demand for and supply of sugar.

a)	A fall in the price of sugar in the market.	(4 marks)
b)	A rise in wages of sugar factory workers.	(4 marks)
c)	A fall in income of consumers	(4 marks)
d)	A rise in the price of substitutes of sugar	(4 marks)
e)	A rigorous advertisement initiative by sugar manufacturers.	(4 marks)

QUESTION FIVE (20 MARKS)

a)	Explain with	illustration	the	point	at	which	a	firm	operating	in	perfect	competition	makes
	profits in the	short run.										(5 :	marks)

- b) Using illustrations explain the causes of disequilibrium (5 marks)
- c) There exists a situation where demand curve may slope upwards instead of downwards from left top right. Explain the conditions for the existence of abnormal demand curves (5 marks)
- d) Using the ordinalist approach, show how the engels curve for a normal good is derived

(5 marks)