KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
INFORMATION TECHNOLOGY

Date: 19th April, 2022
Time: 11.30am –1.30pm

KBA 2113 - EFUNDAMENTALS OF ECONOMICS

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

a)   A two commodity market model is defined by the following:

$Q_{d1} = 4-P_1 + 1/2P_2$
$Q_{d2} = 10 + P_1 - P_2$
$Q_{s1} = -3 + 4P_1$
$Q_{s2} = -18 + 4P_2$
Determine the equilibrium prices and quantities for the two commodities.   (8 marks)

b)   Determine the average product of capital and the average product of labour, wherever applicable:
   i) $Q = 5K^2 - KL + L^2$
   ii) $Q = 1/K^2$
   iii) $Q = K/L^2$
   iv) $Q = AL^{3/2}$ (9 marks)

c)   Precisely, explain   using illustrations (where appropriate) the following concepts as used in Macroeconomics:
   i)   Goals of Macroeconomics   (6 marks)
   ii)   Inflationary and deflationary gaps   (7 marks)

QUESTION TWO (20 MARKS)

a)   Using examples, explain permanent income hypothesis.

                                                                              (10 marks)
b)   Using an illustration, differentiate between a shift and a movement along a demand curve.
                                                                              (6 marks)
c)   Using examples, define giffen goods and inferior goods.

                                                                              (4 marks)

QUESTION THREE (20 MARKS)

a) Illustrate and explain free market situation under price mechanism.

(10 marks)

b) With reference to Kynesian liquidity preference theory, distinguish among the motives of holding wealth as money.   (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain four ways in which contractionary monetary policy could be used to combat inflation in a country.

(10 marks)

b) Using relevant examples, explain the scope of economics.

(10 marks)

QUESTION FIVE (20 MARKS)

a) Stating ALL the adjustments and limitations, discuss value added approach in measurement of national income.

(10 marks)

b) Demonstrate with help of examples the factors responsible for low supply of loaves of bread in Kiriri Sub-county of Kiambu County.

(10 marks)