



SOUTH EASTERN KENYA UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FIRST SEMESTER EXAMINATION FOR VARIOUS BACHELOR OF
SCIENCE DEGREES**

CCS 009: PRINCIPLES OF ECONOMICS

DATE: 5TH DECEMBER, 2016

TIME: 8.00-10.00AM

INSTRUCTIONS TO CANDIDATES

- a) ANSWER QUESTION **ONE** AND ANY OTHER **TWO** QUESTIONS.
- b) BEGIN ANSWERING A NEW QUESTION ON A SEPARATE PAGE ON THE BOOKLET PROVIDED
- c) CREDIT WILL BE GIVEN TO THE CLARITY OF ARGUMENT AND USE OF LOCAL EXAMPLES.

QUESTION ONE (30 MARKS)

- a) Distinguish between the following (8 marks)
 - i. Opportunity cost and scale of preference
 - ii. Public goods and Private goods
 - iii. Gross Domestic Product and Gross National Product
 - iv. Endogenous and Exogenous Variables
- b) Briefly show four reasons why an economy needs a public sector. (2 marks)
- c) Highlight five functions of money in an open economy (5 marks)
- d) Explain five factors influencing supply of a commodity (5 marks)

- e) The following represents quantity supplied levels of two commodities X and Y

Commodity	Initial price	New price	Initial quantity	New quantity
X	10	20	300	400
Y	50	80	500	1000

Compute price elasticity of supply for the two commodities (4 marks)

- f) Describe the three methods of measurement of national income (6 marks)

QUESTION TWO (20 MARKS)

- a) The following table shows quantity demanded and supplied of a commodity X at different price levels and income levels of consumers (Y1 & Y2)

Price of Commodity X	Quantity demanded at income Y1	Quantity demanded at income Y2	Quantity Supplied
50	100	300	400
40	150	350	350
30	250	400	250
20	300	450	200
10	350	500	150

- i) Using any economic tools of analysis, determine the market equilibrium of the commodity at income level Y1. (6 marks)
- ii) An increase in income levels causes a shift of the demand curve. Determine the new equilibrium given an increase in income from Y1 to Y2. (6 marks)
- b) Discuss four reasons why a country would prefer external debt to internal debt (8 marks)

QUESTION THREE (20 MARKS)

- a) Highlight five roles of the Central Bank in a developing nation (10 marks)
- b) In the theory of consumer equilibrium, an indifference map shows the wishes a household to consume but what could actually be demanded is dictated by a household's budget line. Assuming a two-commodity basket for a household and using economic tools of analysis, distinguish between income consumption line and price consumption line (10 marks)

QUESTION FOUR (20 MARKS)

- a) Explain four limitations of measuring of National income of a developing country (8 marks)
- b) The following is data for total production cost of a manufacturing firm at various levels of output

Output	Total Cost
0	1000
20	1400
40	1600
50	1880
100	2200
200	2400

Noting that the fixed cost is 1000, show the following at each level of output;

- i) The average variable cost (2 marks)
- ii) The average total cost (2 marks)
- iii) The marginal cost (2 marks)
- c) Briefly highlight three determinants of balance of trade (6 marks)

QUESTION FIVE (MARKS)

- a) Explain three factors that determine price elasticity of demand (6 marks)
- b) Using a well labeled diagram, explain the meaning of production possibility frontier (4 marks)
- c) Briefly highlight five causes of unemployment in a developing country (10 marks)