



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FOR THE DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DIB 1 122

COURSE TITLE: PRINCIPLES OF ECONOMICS.

DATE: 20TH AUGUST 2015

TIME: 2 HOURS.

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer ANY OTHER TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities



QUESTION ONE

- a) The main objectives of an economic system are to utilize the resources of the country. Economic system may be of THREE kinds. Discuss. (6 marks.)
- b) Consumer sovereignty is the idea that the consumer is the best judge of his or her own welfare; it is limited by several factors. Explain AT LEAST SIX factors. (12 marks.)
- c) Define the following economic terms.
- i. Scarcity (2 marks.)
 - ii. Wants (2 marks.)
 - iii. Price mechanism (2 marks.)
 - iv. Utility (2 marks.)
 - v. Opportunity cost. (2 marks.)
 - vi. Wealth

QUESTION TWO.

- a) Gatheru and Karibu graduated from MKUNBI University and instead of seeking employment, set up a Management Consultancy. They have recently started to give business advice to their clients. Acting as consultants, they have estimated the demand curve of a client's firm to be;
 $AR = 200 - Q$
Where AR is average revenue in millions of shillings and Q is the output in units. Investigations of the clients firm's cost profile shows that marginal cost (MC) is given by: $MC = Q^2 - 28Q + 211$ (in millions of shillings) Further investigations have shown that the firm's cost when not producing output is Sh.10 million.

Required:

- a) The equation of total cost. (4 marks)
 - b) The equation of total revenue (3 marks)
 - c) An expression for profit (2 marks)
 - d) The level of output that maximizes profit. (4 marks)
 - e) The equation of marginal revenue. (2 marks)
- b) Explain the FOUR factors of production and state their rewards. (5 marks.)

QUESTION THREE.

- a) Explain the concept of elasticity of demand and discuss FIVE factors that determine elasticity of demand. (10 marks.)
- b) State the FIVE ideal conditions for a perfect competition market. (10 marks.)

QUESTION FOUR.

- a) A commercial bank is a financial institution which deals with money and credits and established to earn profit. Explain FOUR main advantages. (8 marks.)
- b) Causes of inflation may be classified into two types. Discuss them and illustrate the reasons why it may occur under the two different types. (12 marks.)