



Riara School of Business
Nurturing business innovators

SEPTEMBER- DECEMBER TRIMESTER, 2015
EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT, BUSINESS INFORMATION
TECHNOLOGY AND PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

EVENING PROGRAMME

BDM 017: FUNDAMENTALS OF ECONOMICS

DATE:

TIME: 2 HOURS

INSTRUCTIONS

- i) Answer question one and any other two**
- ii) Marks allocated to each question are shown at the end of the question**
- iii) Arrange your work neatly and indicate the questions answered in the Examination booklet**

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Define the following terms
 - a. Microeconomics (2 marks)**
 - b. Economies of Scale (2 marks)**
 - c. Diminishing returns (2 marks)**
 - d. Market Structures (2marks)**
- b) Describe at least five unacceptable features of a free market system operating in society (5marks)**
- c) Briefly explain two scenarios' how one would apply knowledge in price elasticity of demand in the economy. (6marks)**
- d) Why do many farmers go bankrupt when crops are plentiful? Using a graph, describe measures government can take to prevent this. (5marks)**
- e) The Consumer Federation of Kenya (Cofek) has asked The Energy Regulatory Commission (ERC) to end its monthly review of petroleum prices, which critics say have**

been captured by oil marketers and this had led to consumer exploitation. Describe three ways in which the monopolist can overcharge his products. **(6marks)**

QUESTION TWO

a) "Choice is at the centre of all economic problems" Discuss this statement and indicate how far an individual has freedom of choice. **(10marks)**

b) Explain at least 5 major determinants of price elasticity of demand? Explain how each affects demand elasticity. **(10marks)**

QUESTION THREE

a) Describe oligopolies as a prisoners' dilemma. **(10marks)**

b) Explain the reasons the law of diminishing returns comes about and describe which stage a firm should choose to operate. **(10 marks)**

QUESTION FOUR

a) Under conditions of perfect competition a firm's price is likely to be lower and its output higher than under monopoly conditions. Explain the reasons for this **(10marks)**

b) Graphically describe price ceiling and price floor, explain at least two pros and two cons of both measures. **(10marks)**

*****END*****