



Riara School of Business
Nurturing business innovators

SEPTEMBER-DECEMBER, TRIMESTER, 2019
EVENING PROGRAMME
EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT/ INFORMATION
TECHNOLOGY/ PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

RBM 017: FUNDAMENTALS OF ECONOMICS

DATE: 19TH DECEMBER, 2019

TIME: 2HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.
This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

- 1 Write your REGISTRATION NO. Clearly on the answer booklet(s).**
- 2 Answer Question One and ANY other TWO questions.**
- 3 Questions in all sections should be answered in answer booklet(s).**
- 4 Marks allocated to each question are shown at the end of the question.**
- 5 PLEASE start the answer to EACH question on a NEW PAGE.**
- 6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.**
- 7 Write your answers in paragraph form unless stated otherwise.**
- 8 Keep your phone(s) SWITCHED OFF at the front of the examination room.**
- 9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.**
- 10 You are only allowed to leave the examination room 30minutes to the end of the Examination.**

QUESTION ONE (COMPULSORY (30 MARKS))

- (a) Define the law of demand. **(2 Marks).**
- (b) Explain **four** factors that determine the demand of a commodity **(8 marks).**
- (c) Illustrate **five** different types of demand curves based on different price elasticity of demand **(10 marks).**
- (d) Explain why it is possible for a monopoly to engage in price discrimination **(10 Marks).**

QUESTION TWO

- (a) Describe the law of diminishing marginal utility. Illustrate the law using a diagram. **(8 Marks).**
- (b) Evaluate **four** main properties of indifference curves. **(12 Marks).**

QUESTION THREE

- (a) Explain **three** conditions necessary for perfect competition to thrive. **(6 Marks).**
- (b) In reference to the theory of consumer choice, use a diagram to illustrate the effect of an increase in consumer income on the consumer's budget constraint **(8 Marks).**
- (c) Suppose that an increase in the market price of milk from Kshs. 90 to Kshs. 100 per litre reduces the quantity of milk demanded in Kitengela from 150,000 to 100,000 litres per month. Compute the price elasticity of demand for milk in Kitengela. **(6 Marks).**

QUESTION FOUR

- (a) Define externalities **(2 Marks).**
- (b) Distinguish between negative and positive externalities **(8 Marks).**
- (c) Identify and explain public and private measures that can be used to cure a negative externality such as air pollution. **(10 Marks).**