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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**

Date: 14<sup>th</sup> December, 2020

Time: 8.30am – 10.30am

**KBA 2113 - FUNDAMENTALS OF ECONOMICS**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (20 MARKS)**

- a). The table below represents values of economic transactions for a hypothetical economy in billions of shillings:

Wages and salaries	45
Income from rent	3
Net interest	4
Profits of corporations	8
Indirect taxes	7
Subsidies	3
Depreciation	8
Net income from abroad	-5

**Required:**

From the table, derive the following;

- i). Gross Domestic Product. (3mks)  
ii). Net Domestic Product at market prices. (3mks)  
iii). Net Domestic Product at factor cost. (3mks)  
iv). Gross National Product. (3mks)
- b) By use of examples from your own sub-county, explain the following concepts as used in microeconomics:
- i). Substitute and complementary goods (3mks)  
ii). Giffen and inferior goods. (3mks)  
iii). Scarcity and choice. (3mks)  
iv). Abnormal supply curve. (3mks)
- c) Given the following functions;  
Demand function:  $Q_d = 3550 - 266P$   
Supply function:  $Q_s = 1526 + 240P$   
Determine the equilibrium market price and quantity. (6mks)

## **QUESTION TWO (20mks)**

- a) Macroeconomics is of many vitalities to an economy, as an economist how would you discuss with help of examples the aims of this concept? **(8mks)**
- b) Using an illustration, how would you explain the term 'business cycle.' **(6mks)**
- c) AS an entrepreneur and with help of an illustration explain the relationship among the following short-run cost curves: **TC, TFC, and TVC.** **(6mks)**

## **QUESTION THREE (20mks)**

- a) Explain using examples the difficulties economists encounter while carrying out the task of estimating national income, particularly in developing countries. **(9mks)**
- b) There are various stages of production, diagrammatically, how would you differentiate among them and which stage would you recommend production to take place and why? **(11mks)**

## **QUESTION FOUR (20mks)**

- a) Multiplier is all through smooth and efficient, do you agree with this statement? Explain giving reasons why you agree or disagree. **(6mks)**
- b) **Using** well labelled diagrams, explain the effects on equilibrium point, price and quantity in the following market condition (assume equal percentage change): increase in supply accompanied by a decrease in demand. **(8mks)**
- c) Giving examples, explain whether barter trade is cumbersome. **(6mks)**

## **QUESTION FIVE (20mks)**

- a) Unemployment risen in large magnitude in developing countries in the last few decades. Is it true or false? Explain giving examples. **(10mks)**
- b) Demonstrate your understanding of the concept of perfect competitive market and using examples, explain its properties upon which it is founded. **(10mks)**