



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**SECOND YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DIPLOMA IN BUSINESS ADMINISTRATION**

HOMA BAY CAMPUS

ADE 0100: ECONOMICS

Date: 25th June, 2017

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



Question One

(a) With the help of a well labeled diagram, explain the Circular Flow of Income and Expenditure in an economy (10 mks)

(b) State and explain five uses of National Income statistics to a country (10 mks)

(c) Using the following demand and supply functions of commodity x, compute the equilibrium price and quantity.

$$QS = -10 + 6p$$

$$QD = 20 - 4P$$

(5 mks)

Question Two

(a) State and explain the common features of Perfect Competition. (10 mks)

(b) Give three Socio Economic effects of maximum price control. (5 mks)

Question Three

(a) What is meant by the term International Trade? (3 mks)

(b) In the context of International Trade, briefly explain, using an illustration, the concept of comparative advantage. (12 mks)

Question Four

- (a) Define the term Monetary Policy. (3mks)
- (b) Discuss four instruments of Monetary Policy used to control and regulate money supply by the Central Bank. (12mks)

Question Five

- (a) Explain four main functions of money. (8 mks)
- (b) Liquidity preference is the desire to hold money rather than other forms of wealth. Discuss Keynesian view of the motives behind people holding wealth as money. (7mks)

Question Six

(a) Suppose the price of a 500 ml bottle of soda in Homa Bay this week is Kshs 50 and at that price, weekly sale is 800 bottles. Next week the price of a 500 ml bottle of soda in Homa Bay goes up to Kshs 60 *ceteris paribus*. As a result the quantity of soda demanded per week falls to 650 bottles.

Required

- Calculate the price elasticity of demand of soda in Homa Bay. (8mks)
- (b) Define the term isoquants. (2mks)
- (c) Briefly explain the properties of isoquants. (5mks)