



MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

(MMUST)

UNIVERSITY EXAMINATIONS

2022 /2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER EXAMINATIONS

MAIN EXAMINATION (MAIN CAMPUS)

DIPLOMA IN BUSINESS ADMINISTRATION

COURSE CODE: DIB 103

COURSE TITLE: ELEMENTS OF ECONOMICS

DATE: WEDNESDAY 07/12/2022

TIME: 12:00-14:00

INSTRUCTIONS TO CANDIDATES:

Answer Question ONE and any other Two Questions

QUESTION ONE (30 MARKS)

- a) Distinguish between the following economic Concepts
- i. Microeconomics and Macroeconomics (2 marks)
 - ii. Free enterprise economy and Centrally planned economy (2 marks)
 - iii. Production possibility frontier and Indifference curve (2 marks)
- b) Briefly discuss the factors which affect the own price elasticity of demand (4 marks)
- c) Explain any two exceptions to the law of demand (4 marks)
- d) Using the following demand and supply functions of a commodity x, compute the equilibrium price and quantity.
- $$Q_d = 100 - 2P$$
- $$Q_s = 40 + 4P$$
- (4 marks)
- e) Define the term unemployment (2 marks)
- f) Discuss the main causes of unemployment (10 marks)

QUESTION TWO (20 marks)

- a) Define Money and outline its major functions. (8 marks)
- b) Explain the various motives of holding money. (6 marks)
- c) What are the likely effects of an expansionary monetary policy in an economy. (6 marks)

QUESTION THREE (20 marks)

- a) You are given the following information about the commodity and Money markets of a closed economy without government intervention.

The commodity market

Consumption function:

$$C = 50 + 2/5Y$$

Investment function:

$$I = 790 - 21r$$

The Money Market

Precautionary and Transactions demand for money

$$M_{DT} = 1/6 Y$$

Speculative demand for money

$$M_{DS} = 1200 - 18r$$

Money supply

$$M_s = 1250$$

Required:

- i) Determine the equilibrium levels of income and interest rate for this economy. (8 marks)
 - ii) Using a well labeled diagram, illustrate the equilibrium condition in part (i) above.(4 marks)
- b) A central bank is largely referred by economists as the bank at the apex with monetary authority.
Clearly explain the major functions of a central bank. (8 marks)

QUESTION FOUR (20 marks)

- a) Define inflation. (2 marks)
- b) What are the major causes of inflation? (10 marks)
- c) Explain the economic effects of a high rate of inflation. (8 marks)

QUESTION FIVE (20 marks)

- a) What is meant by the term international trade? (4 marks)
- b) In the context of international trade, explain the concept of comparative advantage with specialization. (10 marks)
- c) Define and briefly explain Balance of Payments (BOP). (6 marks)

