



Riara School of Business

Nurturing business innovators

SEPTEMBER-DECEMBER, 2023 TRIMESTER

**EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT, DIPLOMA IN
PROCUREMENT AND SUPPLY CHAIN MANAGEMENT AND DIPLOMA IN
BUSINESS INFORMATION TECHNOLOGY**

DAY PROGRAMME

RBM 017: FUNDAMENTALS OF ECONOMICS

DATE: 7TH DECEMBER, 2023

TIME: 2

HOURS

GENERAL INSTRUCTIONS:

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. 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. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.
11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE (Compulsory)

- a) Given that the market demand and market supply of sausages in Riara university cafeteria is

$$Q_d = 55 - P \text{ and } P = 0.5Q_s + 5 \text{ respectively:}$$

- i) Compute the market equilibrium price and quantity of sausages in the university cafeteria (4 marks)
- ii) Explain the effect of fixing the market price at sh. 30 per sausage (2 marks)
- b) With the aid of well-labeled diagrams, distinguish between movement along the supply curve and shifts of the supply curve (6 marks)
- c) Distinguish between price floor and price ceiling using a well labeled diagram (6 marks)
- d) Using appropriate examples from your day to day lives, define scarcity, choice and opportunity cost. (6 marks)
- e) Explain **three** characteristics of indifference curves. (6 marks)

QUESTION TWO

- a) Outline **three** measures that the government should put in place in order to control unemployment in Kenya (6 marks)
- b) Outline **three** measures to control inflation in a economy (6 marks)
- c) Explain the following terms (8 marks)
- total product
 - Average product
 - Marginal product
 - Law of diminishing returns.

QUESTION THREE

- a) Explain the **four** assumptions of cardinal utility (8 marks)
- b) Discuss **three** sources of monopoly in an economy (6 marks)
- c) With the aid of a well labeled diagram, explain the effects on equilibrium price and quantity when the demand curve shifts and supply curve remains constant (6 marks)

QUESTION FOUR

- a) Describe **five** factors which may increase the demand of a commodity. (10 marks)
- b) Explain **five** characteristics of perfectly competitive market structure (10 marks)