Examinations for Academic Year 2015 – 2016
Semester II / Academic Year 2016 Semester I

MODULE: ECONOMICS
MODULE CODE: ECON 1101
Duration: 2 Hours
Reading Time: 10 Minutes

Instructions to Candidates:

1. This question paper consists of Section A and Section B.
2. Section A is compulsory.
3. Answer any two questions from Section B.
4. Always start a new question on a fresh page.
5. Total Marks: 100

This question paper contains 6 questions and 5 pages.
SECTION A– COMPULSORY

QUESTION 1 (40 MARKS)

(a) Using appropriate diagram(s), discuss how an increase in the price of coffee would affect the demand of tea.  

(b) The market demand and supply estimates for a good are as follows:

\[ Q_d = 18 - 3P \]
\[ Q_s = 3 + 2P \]

Determine the equilibrium price and quantity  

(c) Differentiate between price, income and cross elasticities of demand.  

(d) The demand function for a firm is as follows:

\[ Q_{dx} = 2500 - 0.4P_x - 0.35P_y + 1.5P_z + 0.20Y \]

Where

\( Q_{dx} \) = the quantity demanded for good X  
\( P_x \) = Price of good X  
\( P_y \) = Price of good Y  
\( P_z \) = Price of good Z  
\( Y \) = Income  

(i) Justify whether goods X and Y are substitutes or complements.  

(ii) Justify whether goods X and Z are substitutes or complements.  

(iii) Is good X a normal or an inferior good? Explain your answer.  

(iv) If the price of good Y is Rs200, the price of good Z is Rs150 and income is Rs 9,000, what is the quantity of good X that will be purchase at the price of Rs125?
SECTION B: ANSWER ANY 2 QUESTIONS

QUESTION 2: (30 MARKS)

(a) Differentiate clearly between a perfectly competitive market and a monopoly market. (8 marks)

(b) Differentiate between an oligopoly market and a monopolistic competition market. (8 marks)

(c) Explain why firms do not immediately go out of business if total revenue fails to cover total costs of production. (14 marks)

QUESTION 3: (30 MARKS)

(a) “Unemployment is one of the major economic problems currently facing most economies”.
   (i) Discuss four main causes of unemployment. (12 marks)
   (ii) Briefly elaborate on the two main policies to combat unemployment. (5 marks)

(b) Elaborate on the different types and causes of inflation. (13 marks)
QUESTION 4: (30 MARKS)

(a) Given that taxation is the main instrument used by governments to raise revenue, describe the qualities of a good tax system. (15 marks)

(b) Discuss the advantages and disadvantages of direct and indirect taxes. (15 marks)

QUESTION 5: (30 MARKS)

(a) What is meant by national income and how is national income calculated. (12 marks)

(b) What is meant by the standard of living and what are the factors which determined living standard. (6 marks)

(c) Discuss the view that national income cannot adequately reflect differences in the standard of living between countries or within the same country. (12 marks)
QUESTION 6: (30 MARKS)

Write short notes on any three (3) of the following:

(a) Using a production possibilities frontier, explain the concept of opportunity cost.

(b) Explain why price moves towards the equilibrium in a free market?

(c) What does a firm’s U-shaped long run average cost curve show?

(d) Discuss why you think people want to hold money.

(e) Distinguish between absolute and comparative advantage.

(f) Advantages and Disadvantages of Protectionism  

(3x 10 Marks)