MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2022/2023 ACADEMIC YEAR FIRST YEAR FIRSTSEMESTER

SCHOOL OF BUSINESS &ECONOMICS
DIPLOMA IN BUSINESS MANAGEMENT
COURSE CODE: DBM 03
COURSE TITLE:INTRODUCTION TO ECONOMICS

DATE: TIME:

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other THREE Questions.

QUESTION ONE

1. (a) Define the following concepts as used in economics:

   i.   Utility   (2 Marks)
  ii.   Scarcity   (1 Mark)
 iii.   Unlimited wants   (1 Mark)
 iv.   Rational self-interest   (2 Marks)

b) Distinguish between microeconomics and macroeconomics giving relevant examples(4 marks

c) Explain the sources of monopoly power   (5 Marks)

d) Discuss two functions of taxation   (4 Marks)

e) State three characteristics of indifference curves   (3 Marks)

f) Distinguish between Gross Domestic Product and Gross National Product   (3 Marks)

QUESTION TWO

a) Explain five characteristics of an oligopoly market structure   (10 Marks)

b) i.   Define factors of production   (1 Mark)

ii.   Briefly explain the four factors of production   (4 Marks)

QUESTION THREE

a) Explain five challenges encountered by economic planners when estimating the national income in developing countries   (10 Marks)

b) i.   Define principles of taxation   (1 Mark)

ii.   Explain the principles of taxation according to Adam Smith   (4 Marks)

QUESTION FOUR

a) i.   Define fiscal policy   (2 Marks)

ii.   Explain the objectives of the fiscal policy   (8 Marks)

b) With the aid of a diagram, explain the production possibility frontier   (5 Marks)

QUESTION FIVE

A firm produces good X using labour as the only variable factor. Its fixed cost is five dollars. The table below therefore shows the firms total cost at the corresponding output levels.

Output(Q)	Total cost (T.C)
0	5
1	9
2	12.5
3	15.8
4	18.8
5	22
6	25.5
7	29.3
8	33.6

Calculate:

i. Total variable cost — (3 Marks)
ii. Average fixed cost — (3 Marks)
iii. Average variable cost — (3 Marks)
iv. Average total cost — (3 Marks)
v. Marginal cost — (3 marks)

Solution

Fixed Cost (FC) = TC at Q = 0 = 5

Q	TC	TVC = TC − FC	AFC = FC/Q	AVC = TVC/Q	ATC = TC/Q	MC = ΔTC
0	5	0	—	—	—	—
1	9	4	5.00	4.00	9.00	4.0
2	12.5	7.5	2.50	3.75	6.25	3.5
3	15.8	10.8	1.67	3.60	5.27	3.3
4	18.8	13.8	1.25	3.45	4.70	3.0
5	22	17	1.00	3.40	4.40	3.2
6	25.5	20.5	0.83	3.42	4.25	3.5
7	29.3	24.3	0.71	3.47	4.19	3.8
8	33.6	28.6	0.625	3.575	4.20	4.3