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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 ACADEMIC YEAR THREE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BIOLOGICAL AND PHYSICAL SCIENCES**

**FOR THE DEGREE OF BACHELOR OF EDUCATION**

**COURSE CODE: ACS 303**

**COURSE TITLE: PRINCIPLES OF ECONOMICS II**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 14/02/2020 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

You have been hired as a consultant by a firm producing bread to advise on a price strategy that would enable the firm to maximize profits. The firm is a monopolist which sells in two distinct markets, one of which is completely sealed off from the other.

As part of the analysis, you establish that the total demand for the firm’s output is given by the following equation:

Q = 50 – 5.0P

And the demand for the firm’s output in the two markets is given by the following equations:

Q1= 32 – 0.4P1 and

Q2 = 18 – 0.1P2

Where Q = total output

P = Price

Q1 = Output sold in market 1

Q2 = Output sold in market 2

Q1 = Price charged in market 1

Q2 = Price charged in market 2

The total cost of production is given by C = 50 + 40Q

Where C = total cost of producing a unit of bread.

**Required:**

1. The total output that the firm must produce in order to maximize profits. **[4 marks]**
2. What price must be charged in each market in order to maximize profits **[2 marks]**
3. How much profit would the firm earn if it sold the output at a single price, and if the

discriminates **[5 marks]**

1. (i). The price elasticity of demand for the two markets at the equilibrium

price quantity. **[5 marks]**

(ii). Comment on how the price elasticity of demand may be used in making

economic decisions. **[3 marks]**

1. Under what conditions is price discrimination possible? **[2 marks]**
2. The demand and supply schedules for carrots in a certain market are given below:

Price per ton Quantity demanded per month Quantity supplied per month

(Sh. ‘000’) (Thousands of tons) (Thousands of tons)

2 110.0 5.0

4 90.0 46.0

8 67.5 100.0

10 62.5 115.0

12 60.0 122.5

Determine the equilibrium quantity and price by graphical method. **[8 marks]**

1. Define the concept of “national income”. **[2 marks]**

**QUESTION TWO**

1. Citing practical examples, explain the differences between the following types of unemployment listed below and how each affects economic growth.
2. Seasonal and casual unemployment  **[7 marks]**
3. Disguised and unproductive unemployment  **[7 marks]**
4. Outline policies which if implemented would alleviate the problem of unemployment.  **[6 marks]**

**QUESTION THREE**

1. Identify and explain options available for raising funds to finance government activities. **[4 marks]**
2. With regard to fiscal policies, discuss short-run measures a government of a developing country may adopt to ensure sustainable economic growth. **[10 marks]**
3. Outline the reasons for slow economic growth of a developing country**. [6 marks]**

**QUESTION FOUR**

1. The following table represents a production function of a hypothetical firm in the short-run.

**Output (units) Total cost (sh)**

0 150

10 210

20 260

30 410

40 455

50 560

60 680

70 750

80 920

1. Define marginal cost and give an estimate of the marginal cost of producing the 20th unit of capital. **[4 marks]**
2. Find the average fixed cost and average variable cost when the firm produces 50 units of output. **[4 marks]**
3. Supposing the marginal propensity to consume (MPC) in an economy is 0.8. If the level of investment in this economy increases by twenty million shillings while holding other factors constant; calculate:
4. The change in the equilibrium level of income. **[3 marks]**
5. Autonomous change in spending. **[3 marks]**
6. Induced change in consumption. **[2 marks]**
7. Highlight the factors that influence the decision to invest. **[4 marks]**

**QUESTION FIVE**

1. Define elasticity of supply and briefly explain any five factors that influence the elasticity of supply. **[10 marks]**
2. Explain why elasticity of supply for agricultural commodities is low**. [6 marks]**
3. **(**The demand for a commodity is twenty units when the prevailing market price equals eighty shillings per unit. However, when the price rises to one hundred shillings, quantity demanded rises to thirty units. Calculate both **arc** and **point** **elasticities** of this commodity. **[4 marks]**