



**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
P.O. Box 972-60200 – Meru-Kenya  
Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,  
Website: [info@must.ac.ke](mailto:info@must.ac.ke) Email: [info@must.ac.ke](mailto:info@must.ac.ke)

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**UNIVERSITY EXAMINATIONS 2021/2022**  
**FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DIPLOMA IN PURCHASING  
AND SUPPLY CHAIN MANAGEMENT**

**BBS 2156: ECONOMICS**

**DATE: JANUARY 2022**

**TIME: 1½ HOURS**

**INSTRUCTIONS:** Answer question ONE compulsory and any TWO questions.

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**QUESTION ONE (30 MARKS)**

- a) Define the following terms (10 marks)
- (i) Indifference curve
  - (ii) Production possibility curve
  - (iii) Scarcity
  - (iv) Budget line
  - (v) Opportunity cost
- b) Briefly discuss the factors affecting supply of a product (6 marks)
- c) Briefly discuss the determinants of price elasticity of demand (8 marks)
- d) Resources to satisfy unlimited human wants are scarce. Briefly discuss how resources are distributed in producing commodities in an economy using a production possibility frontier (6 marks)

**QUESTION TWO (20 MARKS)**

- a) Briefly describe the following costs
- (i) MC
  - (ii) VC
  - (iii) FC
  - (iv) AVC
  - (v) AFC (5 marks)

- b) State the law of diminishing returns (2 marks)
- c) State the law of supply (2 marks)
- d) Briefly discuss the 3 stages of production (8 marks)
- e) Outline three assumptions of cardinal approach to consumer behavior (3 marks)

### QUESTION THREE (20 MARKS)

- a) Discuss consumer equilibrium using a graph (6 marks)
- b) Outline the exemptions of downward sloping of demand curve (6 marks)
- c) Using graphs distinguish the difference between relatively elastic demand and relatively inelastic demand (8 marks)

### QUESTION FOUR (20 MARKS)

- a) Outline the characteristics of indifference curve (6 marks)
- b) Given the following  
 $Q=4050-360P$ ,  $Q=2500+320P$   
 Identify the demand and supply equation and find the equilibrium price and quantity (6 marks)
- c) The demand of a commodity is 10 units when the price is Ksh 1500 per unit. When the price falls to 1000 the demand rises to 15 units. Compute price elasticity of demand (8 marks)

### QUESTION FIVE (20 MARKS)

- a) Given the following

No of workers	Total product	Average product	Marginal product
1	10		
2	15		
3	20		
4	24		
5	27		
6	27		
7	23		

Calculate average product and marginal product (8 marks)

- b) Explain the main types of market structures (12 marks)