



ALUPE UNIVERSITY
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... Bastion of Knowledge...

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**OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH**

UNIVERSITY EXAMINATIONS

2017 /2018 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER REGULAR EXAMINATION

FOR THE DIPLOMA OF BUSINESS MANAGEMENT



COURSE CODE: DBM 03
COURSE TITLE: INTRODUCTION TO ECONOMICS

DATE: 3RD MAY, 2018

TIME: 9AM – 12.00 NOON

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 2 PRINTED PAGES

PLEASE TURN OVER

DBM 03: INTRODUCTION TO ECONOMICS**STREAM: DBM****DURATION 3 HOURS****INSTRUCTIONS TO CANDIDATES**

- i. Answer *Question ONE* and any other *TWO* questions
- ii. *Question ONE* carries 30 marks
- iii. Do not write on the question paper

Question One

- a) Briefly explain the three methods used to compute the national income of a country. (6 Marks)
- b) Explain why government often try to impose restrictions on free trade (8 Marks)
- c) Unemployment has been a big problem in Kenya. Define and state the measures, that the government can adopt to alleviate the problem. (6 Marks)

Question Two

- a) How do commercial banks 'create credit'? What are the limitations to this credit creation? (12 Marks)
- b) Explain the concept of liquidity trap. (8 Marks)

Question Three

- a) Clearly explain the meaning of deficit financing of the national budget. (4 Marks)
- b) To what extent can an economy be supported by deficit – financing? (10 Marks)
- c) Explain what fiscal policy entails. (6 Marks)

Question Four

- a) What is meant by the term international trade? (4 Marks)
- b) In the context of international trade, explain the concept of comparative advantage with specialization. (10 Marks)
- c) Define and briefly explain Balance of Payments (BOP). (6 Marks)

Question Five

- a) Define inflation. (2 Marks)
- b) What are the major causes of inflation? (10 Marks)
- c) Explain the economic effects of a high rate of inflation. (8 Marks)
