"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

ECO1104 PRINCIPLES OF ECONOMICS

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2025

LECTURER: DR T. MASESE

TIME: 3 HOURS

INSTRUCTIONS

Answer *ANY FOUR* Questions

Marks allotted to each question are clearly indicated

CLEARLY AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS

ALL WRITTEN WORK (*including rough work*) TO BE DONE IN THE AFRICA UNIVERSITY ANSWER BOOKLET

DO NOT TEAR OFF ANY PAGES FROM THE AFRICA UNIVERSITY ANSWER BOOKLET

Answer any FOUR Questions for this paper

Question 1

a. Given the following income elasticities of demand, would you classify the following goods as normal or inferior goods? **(4 marks)**

Product	Elasticity	Classification (Normal or Inferior)
Potatoes	0.5	?
Sugar beans	0.1	?
Bottled water	1.1	?
Video Cameras	1.4	?

b. Explain the concept of opportunity cost using relevant examples **(4 marks)**

c. With the aid of a diagram, illustrate how equilibrium price and quantity are determined in a competitive market **(7 marks)**

d. Suppose the demand for maize is given by $Qd = 100 – 2P$ and the supply is $Qs = 20 + 3P$. Calculate the equilibrium price and quantity **(10 marks)**

Question 2

a. Define price elasticity of demand (PED) and explain its importance to businesses and government policy **(5 marks)**

b. The demand function for a product is given as $Q = 500 – 4P$. Calculate the price elasticity of demand when P = 50. Interpret your result. **(10 marks)**

c. Discuss any five (5) factors that may influence the elasticity of demand for a product. **(7 marks)**

Question 3

a. Describe the main characteristics of a perfectly competitive market. **(7 marks)**

b. Compare the efficiency outcomes of perfect competition and monopoly. **(8 marks)**

c. A monopolist faces the demand curve $Q = 60 – P$ and has a constant marginal cost (MC) of 20. Find the monopolist's profit-maximizing price and quantity. **(10 marks)**

Question 4

a. Define Gross Domestic Product (GDP) and discuss its limitations as a measure of economic welfare. **(8 marks)**

b. Given the following data for a simple economy (values in millions): Consumption = 200, Investment = 50, Government expenditure = 70, Exports = 40, Imports = 60. Calculate the balance of trade and GDP using the expenditure method. **(10 marks)**

c. Briefly explain two other indicators of economic performance apart from GDP. **(7 marks)**

Question 5

a. Explain the difference between fiscal policy and monetary policy. **(7 marks)**

b. With the aid of an Aggregate Demand–Aggregate Supply (AD-AS) diagram, explain how expansionary fiscal policy can be used to close a recessionary gap. **(8 marks)**

c. Suppose the reserve requirement ratio is 10%. If the central bank injects $500 million into the banking system, calculate the maximum potential increase in the money supply. **(10 marks)**

END OF EXAMINATION

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