



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR BACHELOR OF SCIENCE, CONSTRUCTION
MANAGEMENT
3rd YEAR 1st SEMESTER 2024/2025 ACADEMIC YEAR

MAIN CAMPUS

COURSE CODE: Construction Economics

COURSE TITLE: TCB 1309

EXAM VENUE:

DATE:

DURATION: 2 HOURS

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Candidates are advised not to write on the question paper**
- 4. Marks allocated to each question are shown at the end of the question**

Question One

- (a) Explain the term "production function" as used in construction economics
(2 Marks)
- (b) Briefly explain two merits and one demerit of division of labour in the Kenyan construction sector
(3 Marks)
- (c) Maximax Contractors Ltd, an entrepreneurship firm in the building sector is planning a new project. There are two possible Projects, A and B which can be invested in, but the firm is unable to make a decision on which of the two projects would be most preferable. The initial outlay and cash flow patterns for each of the projects are as provided herebelow;

Project A

Period (Years)	0	1	2	3	4	5
Cashflow (Kshs)	1,500,000	500,000	450,000	440,000	400,000	350,000

Project B

Period (Years)	0	1	2	3	4	5
Cashflow (Kshs)	1,500,000	480,000	460,000	470,000	380,000	300,000

Additional information;

- (i) At the end of the second year of the investment, a sum of Kshs.250,000 will be required to exploit an investment opportunity that is expected to occur, which will be critical for the continuation of the project to full term
- (ii) Projects A and B are mutually exclusive
- (iii) After the investment period has lapsed, the premises will attract goodwill to the tune of Kshs.200,000 which will be paid to the businessman
- (iv) The cost of capital for the entrepreneur is 12%.

Required;

Using Net Present Value method, advise Maximax Contractors Ltd on which of the two projects to invest in, if at all.
(15 Marks)

(b) Explain the term "time value of money" and discuss the economic relevance of discounted cash flows in decision making. (2 Marks)

(d) Debt distress is a situation that can affect a borrower's capacity to access funding for investment in long term infrastructural projects. Discuss the concept of debt distress while distinguishing it from debt conversion. (4 Marks)

(e) Foreign Direct Investment (FDI) are an alternative source of funds that can be used for financing construction projects.

Required;

Argue **two** cases in favour of Foreign Direct Investment (FDI) in developing countries such as Kenya. (4 Marks)

Question Two

(a) Describe how the concept of opportunity cost is applied in decision making with respect to:

(i) Consumers

(ii) Firms

(6 Marks)

(b) Using a well labelled diagram, differentiate between "movements along a supply curve" and "shifts in supply curve". (8 Marks)

(c) The government of Kenya plays a critical role in ensuring that the construction industry expands so as to contribute to the growth in the overall economy of the country.

Required;

In the context of the above statement, identify **six** measures that a government could adopt to spur growth in the construction sector (6 Marks)

Question Three

(a) Using a well labelled diagram, distinguish between "price floor" and "price ceiling". (8 Marks)

(b) Marketing of residential houses in Kenya is identified as one of the ways of targeted promotion of sales in the construction sector.

Required

- (i) Discuss the challenges faced by house development entrepreneurs in Kenya while seeking to place houses in the market to targeted purchasers (6 Marks)
- (ii) Suggest ways that can be used by businesses in the construction sector to attract buyers of residential houses (6 Marks)

Question Four

- (a) The construction industry presents various opportunities for a variety of professionals in the built environment with the overall expectation of expanding employment opportunities within the Kenyan economy.

Required;

In the context of the above statement, identify the professional careers that have been impacted by the prospective growth of the construction industry in Kenya and briefly explain how the impact influences the economy. (12 Marks)

- (b) The specializations in the built environment have been influenced both positively and negatively by the introduction of artificial intelligence in the construction industry in developing economies.

Required

List and briefly explain the sectors within the built environment that may be negatively affected in the coming days due to reliance on artificial intelligence (8 Marks)

Question Five

- (a) Discuss any seven sources of funds that can be used in the construction industry. (14 Marks)
- (b) Highlight the challenges that may be experienced by investors in the construction industry in accessing funds for development in Kenya (6 Marks)