CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT AND HOTEL MANAGEMENT

BCOM 102: PRINCIPLES OF MICROECONOMICS

STREAMS: COOP & HOTEL MANAGEMENT   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 11/12/2018   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:
- **Answer question ONE and any OTHER TWO questions.**

QUESTION ONE

(a)   Distinguish between the following pair of terms.

     (i)   Marginal rate of substitution and marginal rate of technical substitution.

     (ii)   Short run and long run periods in production

     (iii)   Neutral and stable equilibrium

     (iv)   Cardinalist approach and ordinalist approach

     (v)   Isoquant and isocost lines   (10 marks)

(b)   Discuss with the aid of a diagram a consumer surplus.   (10 marks)

(c)   Using an illustration, explain the short run and long run equilibrium for a firm under perfect competition.   (10 marks)

QUESTION TWO

(a)   Explain the reasons for the downward sloping demand curve.   (6 marks)

(b)   Explain four characteristics of a perfect competitive market.   (8 marks)

(c)   Explain three characteristics of an indifference curve.   (6 marks)

QUESTION THREE

(a)   Explain four assumptions of cardinal utility approach.   (8 marks)

(b)   Explain giving relevant examples the problems that an economic organization must solve.
                                                                                (8 marks)

(c)   Differentiate between Veblen and inferior goods.   (4 marks)

QUESTION FOUR

(a)   Given the following average revenue and average cost functions.

$AR = 4 - 0.25Q$ and $AC = \dfrac{4}{Q} + 2 - 0.3Q + 0.05Q^2$ Find the level of Q and P that maximize profits for the firm.
         (10 marks)

(b)   With aid of a well labelled diagram, explain the three stages of production. (10 marks)

QUESTION FIVE

(a)   The following information relates to a certain market:

$$Q_1 = 2P^2 - 8$$
$$Q_2 = 19 - P^2$$

    Required (i)   State the demand and supply functions respectively.   (1 mark)
            (ii)   Determine equilibrium price and quantity.   (3 marks)

(b)   Explain the four sources of monopoly power.   (4 marks)

(c)   Explain four distinguishing factors of an oligopoly.   (8 marks)

(d)   Discuss the factors that determine the elasticity of supply.   (4 marks)