

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
CHUKA/EMBU/THARAKA**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE,
HOTEL MANAGEMENT, COOPERATIVE MANAGEMENT**

ECON 111: PRINCIPLES OF MICROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 06/12/2018

2.30 P.M – 4.30 P.M

INSTRUCTIONS

- **Answer question one and any other two questions**

1. (a) Write short notes distinguishing the following concept as used in micro economics.

(i) Need and want

(ii) Isocost and isoquant lines

(iii) Veblen good and inferior good

(iv) Marginal rate of substitution and marginal rate of technical substitution

(v) Price elasticity and income elasticity. [10 marks]

(b) The average revenue and average cost functions for a firm are given below

$$AR=4- 0.25Q \quad AC = \frac{4}{Q} + 2 -0.3Q + 0.05 Q^2$$

Find the level of Q and P that maximize profits for the firm. [6 marks]

(c) Economics involve determining among alternatives uses and establishing a choice among them that optimizes human satisfaction. Discuss the main economic problems that economists try to solve. [4 marks]

(d) With the aid of a well labelled diagram show the equilibrium position of a perfectly competitive firm in the short run. [6 marks]

(e) Explain in details the sources of monopoly power. [4 marks]

2. (i) The following information relates to a certain market.

$$Q_1 = 4P^2 - 4$$

$$Q_2 = 20 - P^2$$

Required:

- (a) State the demand and supply functions respectively. [1 marks]
 - (b) Determine the equilibrium price and quantity. [3 marks]
 - (c) Explain the four limitations of cardinal utility approach. [8 marks]
 - (d) Highlight the reasons for the downward sloping demand curve. [5 marks]
3. (i) Production efficiency involves using a given level of technology to produce a specified level of output at a measured input variable. Discuss with the aid of a diagram the stages of production. [10 marks]
- (ii) Discuss the economical relationship among scarcity, choice and opportunity cost. [10 marks]
4. (a) Discuss the relationship between the total physical product and marginal physical product. [10 marks]
- (b) Discuss giving relevant examples the major factors that determines the elasticity of supply. [10 marks]
5. (a) Determine equilibrium quantities of commodity X and Z for a customer whose total utility and other relevant variables are given below and hence obtain the maximum utility level.
- $U = 40X - 16Z^2 + 80Z - X^2$
- INCOME LEVEL (Y) = ksh 100
- Price of x (p_x) = ksh 4
- Price of Z (p_z) = ksh 8 [10 marks]
- (b) Elasticity is an important element in the economy. Discuss the relevance of the concept of elasticity to a developing economy. [10 marks]
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