

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COMMERCE**

ECON 111: PRINCIPLES OF MICROECONOMICS

STREAMS: BCOM (Y1S1)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 07/8/2019

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

- (a) Clearly differentiate between the following terms
- (i) Giffen good and inferior good [2 marks]
 - (ii) Normal good and Veblen goods [2 marks]
- (b) With aid of a diagram, explain how the price of related commodities affect demand. [8 marks]
- (c) Define the term price elasticity of demand and hence compute the elasticity of demand of the following function at
- $$P = 6$$
- $$Q = 60 - 3P^2$$
- [6 marks]
- (d) With aid of a well labeled diagram demonstrate the short-run equilibrium of a firm under perfect competition. [8 marks]

ECON 111

QUESTION TWO

- (a) Given the total cost function below $TC = 2500 + 10Q - 5Q^2 + 2Q^3$
- (i) Determine average fixed cost when output Q is 5 units. [4 marks]
 - (ii) Compute total and average costs at level of 5 units. [4 marks]
 - (iii) Calculate the level of marginal cost at level of 12 units of production [4 marks]
- (b) Explain the reasons why sometimes the demand curve may be upward sloping. [6 marks]
- (c) Explain factors that determine elasticity of demand of any given commodity. [4 marks]

QUESTION THREE

- (a) With an aid of a diagram, of explain the effect of a decrease on the equilibrium price and quantity. [4 marks]
- (b) Explain the conceptual difference between cardinal utility and ordinal utility hence explain the assumptions made under cardinal approach. [10 marks]
- (c) Explain the sources of monopoly power. [6 marks]

QUESTION FOUR

- (a) Explain three types of equilibrium that occur in a market, giving conditions for their existence. [10 marks]
- (b) Discuss the 3 stages of production using a well-labeled diagram. [6 marks]
- (c) Clearly explain four properties of an isoquant [4 marks]
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