CHUKA **UNIVERSITY**

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF SCIENCE IN ECONOMICS, BACHELOR OF COMMERCE,
BACHELOR OF COOPERATIVE MANAGEMENT, BACHELOR OF
ENTREPRENEURSHIP AND ENTERPRISE MANAGEMENT, BACHELOR OF
ECONOMICS AND SOCIOLOGY, BACHELOR OF ECONOMICS AND
MATHEMATICS, BACHELOR OF AGRIBUSINESS MANAGEMENT, BACHELOR
OF AGRICULTURAL ECONOMICS**

ECON 111/BCOM 102/ECON 101: PRINCIPLES OF MICROECONOMICS

STREAMS: AS ABOVE **TIME: 2 HOURS**

DAY/DATE: TUESDAY 03/12/2019 **8.30 AM – 10.30 AM**

INSTRUCTIONS:
- **Answer Question One and any other Two Questions**
- **Do not write anything on the question paper**

Question One (Compulsory)
1. (a)   Distinguish between the following terms.

    (a)   Demand and wants   [2 marks]
    (b)   Giffen goods and inferior goods   [2 marks]
    (c)   Perfect market and monopolistic market   [2 marks]
    (d)   Micro-economics and macroeconomics   [2 marks]
    (e)   Production possibility curve/ frontier and isoquant.   [2 marks]

    (b)   Explain the methods / approaches that are used in economic analysis.
                                                                   [10 marks]

    (c)   The market for coffee is currently at equilibrium at price of ksh 10 per kg and
          quantity 1000 kgs. Suppose the own price elasticity of demand at the equilibrium
          point is -0.1 and the own price elasticity of supply at this point is 0.2. suppose that
          the government imposes taxes on coffee which increases the price of coffee to ksh
          15 per kg. calculate the quantity demanded and quantity supplied at the new price.
                                                                   [10 marks]

Question Two

(a) Clearly explain the reason behind downward sloping of demand curve.   [4 marks]

(b) Using the indifference curve approach explain and illustrate how the Engel's curve IS Derived.   [6 marks]

(c) The average revenue and average cost for given firm are given as follows:
$AR = 20 - 1.25Q$
$AC = \frac{20}{Q} + 10 + 1.5Q$

Find the level of Q that maximize profit and hence maximum profit.   [10 marks]

Question Three

(a) Explain the determinant of elasticity of demand.   [10 marks]

(b) Given the following cost function $T.C = 100 + 6y - 0.4y^2 + 0.02y^3$
   (i) Find the output level where average variable cost is at minimum.   [4 marks]

   (ii) Assuming that the output (y) ranges from 0 to 50 units, use a well labelled diagram to answer the following questions.

      (a) The average variable cost (Arc)s curve.   [3 marks]
      (b) The margins cost (MC) curve.   [3 marks]

Question Four

(a) Using a well labelled diagram explain why oligopolistic market structure has a kinked demand curve.   [6 marks]

(b) Illustrate and explain how the disequilibrium concept can be applied in the cob-web model.   [10 marks]

(c) Explain the limitation of cardinal utility theory.   [4 marks]