

CHUKA



UNIVERSITY

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EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM

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
- Do not write anything on the question paper

QUESTION ONE

- (a) Distinguish between the following terms
- Veblen goods and Giffen goods
 - Positive economics and normative economics
 - Cardinal utility and Ordinal utility
 - Monopoly and perfect competition [8 marks]
- (b) Given the following functions:
- $$Q_1 = 55 - 4P$$
- $$Q_2 = 15 - 5P$$
- Identify the demand and supply functions giving the reasons for each [2 marks]
 - Compute the equilibrium price and quantity [4 marks]
- (c) Differentiate between movement along supply curve and shift of supply curve using diagram. [4 marks]

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- (d) Discuss the sources of monopoly power [6 marks]
- (e) Highlight the determinants of demand [6 marks]

QUESTION TWO

- (a) Given the total cost function below:
 $TC = 3050 + 250Q - 20Q^2 + Q^3$
- (i) Determine average fixed cost when output is 10 units [2 marks]
- (ii) Compute the total cost and total variable cost at the level when $Q=20$ [4 marks]
- (iii) Find the level of marginal cost at the level when $Q= 5$ units [4 marks]
- (b) Explain the conceptual difference between cardinal and ordinal utility, hence explain the assumptions made under each approach. [10 marks]

QUESTION THREE

- (a) Using a well labeled diagram, discuss the concept of scarcity and opportunity cost. [8 marks]
- (b) Discuss the three stages of production using a diagram. [6 marks]
- (c) Discuss the exceptions to the law of demand. [6 marks]

QUESTION FOUR

- (a) Using the concept of indifference curve and budget line, discuss the point of equilibrium of the consumer. [10 marks]
- (b) Discuss the effect of increase and decrease in price on the stable equilibrium in the market. [10 marks]
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