CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

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

ECON 111: PRINCIPLES OF MICROECONOMICS

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: TUESDAY 05/12/2017 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

1. (a) Clearly distinguish between the following
   - (i) Income and substitution effect of a price change [2 marks]
   - (ii) Marginal rate of transformation and marginal rate of technical substitutions. [2 marks]
   - (iii) Engels curve and demand curve. [2 marks]
   - (iv) Shortrun and long run period on production [2 marks]
   - (v) Isoquants and isocost lines [2 marks]
   - (vi) Positive and normative analysis [2 marks]

   (b) Prove that the returns to scale for a homogenous production function is given by the power of its exponents. [5 marks]

   (c) Using their characteristics, differentiate between monopolistic and oligopolistic markets. [8 marks]

   (d) An increase in supply leads to low price and an increase in quantity demanded, explain using an illustration. [5 marks]

QUESTION TWO

(i) From time to time, the government controls prices of different commodities using two main policies namely:

Minimum and maximum price policies.Explain them and show how they cause disequilibrium in demand and supply. [10 marks]

(ii) Explain clearly 5 assumptions of cardinal utility approach and discuss the criticisms of the approach as a measure of consumer utility. [10 marks]

QUESTION THREE

(i) Using an illustration, explain clearly the stages of production and indicate the most efficient stage. [10 marks]

(ii) Discuss the determinants of elasticity of demand. [10 marks]

QUESITON FOUR

(i) Discuss the shortrun and longrun equilibrium for a firm in a perfectly competitive market. [10 marks]

(ii) Given the following demand function of a consumer;

$$Q_y = 200 - 0.02Py + 0.56Px - 2.3Pw + 0.000\ Pz + 3.5I$$

Where;

Px=20

Py=30

Pw=10

Pz = 15 are the prices of good X, Y and Z and I = 10,000 which is the income of the consumer.

Find the following;

(i) Price elasticity of demand of good y in relation to price of x, w and z.[3 marks]

(ii) From (i) above, state the relationship between good y and good x, w and z. [3 marks]

(iii) Income elasticity of demand for good y. [2 marks]

(iv) From (iii) above, what type of product would y be? [2 marks]
