

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN

DIAC/DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/12/2017

2.30 P.M - 4.30 P.M.

INSTRUCTIONS:

Answer Question ONE and any other TWO Questions.

QUESTION ONE

- (a) Clearly differentiate between the following terms
- (i) Giffen goods and inferior goods. [2 Marks]
 - (ii) Normal goods and Veblen goods. [2 Marks]
- (b) Using a well labeled diagram, explain the concept of scarcity and opportunity cost. [8 Marks]
- (c) With the aid of a diagram, explain how the price of related commodities affects the demand. [8 Marks]
- (d) Define the term price elasticity of demand and hence compute the price elasticity of demand of the following function at $p = 4$
 $Q_d = 80 - 4p^2$ [6 Marks]
- (e) Explain factors that determine price elasticity of demand. [4 Marks]

QUESTION TWO

- (a) With an aid of diagram, explain the effect of a decrease in price on the equilibrium. [6 Marks]
- (b) Demand curve for an oligopolistic firm is kinked. Using a well labeled diagram, discuss. [6 Marks]
- (c) Distinguish between cardinal utility and ordinal utility approach, hence discuss the assumptions made under ordinary utility approach. [8 Marks]

QUESTION THREE

Given the total cost function below, $TC = 2500 + 10Q - 5Q^2 + 2Q^3$

- (i) Determine average fixed cost when output (Q) is 5 units. [2 Marks]
- (ii) Compute the total and average costs at the level of 5 units. [4 Marks]
- (iii) Determine the level of marginal cost at level of 12 unit of production. [4 Marks]

(b) Explain the sources of monopoly power in a market. [10 Marks]

QUESTION FOUR

(a) Given the following equation $Y = 5000 - 0.5P_y - 2.3 P_w + 0.2 P_x + 0.0037I$

Suppose further that

a. $Q_y = 15,000$ $P_y = 30,000$ $I = 60,000$

Compute;

- (i) Own price elasticity [2 Marks]
- (ii) Cross price elasticity [6 Marks]
- (iii) Income elasticity of demand [2 Marks]

(b) Using indifference curve and the budget line graphically discuss the point of equilibrium of the consumer. [10 Marks]

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