

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 111/ ECON 111: PRINCIPLES OF MICROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/09/2018

8.30 A.M – 10.30 A.M

INSTRUCTION:

- **Answer question one and other two**

SECTION A: 30 MARKS

1. (a) Define the following terms: [3 marks]

(i) Opportunity cost

(ii) Scarcity

(iii) Elasticity

(b) Using a diagram where applicable, distinguish the following. [6marks]

(i) Movement along the demand curve and the shift of the demand curve.

(ii) Production possibility frontier and the indifference curve.

(c) Discuss the factors that influence supply of goods and services in an economy.

[8marks]

(d) Given the following functions:

$$Q = a - bP$$

$$Q = -c + dP$$

- (i) With an explanation, show the demand and supply functions. [1 mark]
- (ii) Calculate the equilibrium market price and quantity. [3 marks]
- (iii) Present your results in a well labeled economic diagram. [1 mark]
- (e) Describe the various stages of production in an economy. [6 marks]
- (f) Distinguish between Veblen goods and giffen goods. [2 marks]
2. (a) Differentiate the approach from Cardinal approach in the study of the consumer behavior. [4 marks]
- (b) Describe the assumptions made in the ordinal approach. [4 marks]
- (c) With the help of a well labeled diagram, describe the concept of the consumer surplus. [4 marks]
- (d) Given the following functions: [8 marks]
- $$U = 20x - 4z^2 + 40 - x^2$$
- Income level $Y = \text{ksh } 48$
- Price of $X (p_x) = \text{ksh } 2$
- Price of $Z (p_z) = \text{ksh } 4$
3. (a) Given examples of each, distinguish monopolistic market structure from oligopoly market. [4 marks]
- (b) Discuss different sources of monopoly power in an economy. [4 marks]
- (c) Discuss the importance of the concept of elasticity. [6 marks]
- (d) Explain various instances when the law of demand may fail to be observed. [6 marks]
4. (a) With a well labeled diagram, distinguish between the substitution effect and the income effect for a normal commodity in the case of increase in price of a commodity. [8 marks]
- (b) Discuss the features of the oligopoly market structure. [4 marks]
- (c) Describe factors that can lead to income in-equality in an economy. [8 marks]
-

