CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: Y1S1   **TIME: 2 HOURS**

DAY/DATE: THURSDAY 12/04/2018   **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:
Answer question ONE and any other TWO questions.

QUESTION ONE

(a)   Clearly distinguish the following terms as used in economics;

        (i)   Microeconomics and Macroeconomics   (2 marks)

        (ii)   Giffen goods and Veblen goods   (2 marks)

        (iii)   Normal goods and Inferior goods   (2 marks)

        (iv)   Cardinal utility and ordinal utility   (2 marks)

(b)   Give reasons why demand curve is sometimes upward shaping.   (6 marks)

(c)   With aid of a well labelled diagram, discuss how the price of related commodities affects the demand.   (10 marks)

(d)   Define price elasticity of demand and hence compute price elasticity of demand of the following function at $P = 8$

$$Qd = 120 - 6p^2$$ (6 marks)

QUESTION TWO

(a)   Using a well labelled diagram, discuss the three stages of production.   (6 marks)

(b)   Discuss four sources of monopoly power in a market.   (8 marks)

(c)   Explain factors that determine price elasticity of demand.   (6 marks)

QUESTION THREE

(a)   Using a well-labelled diagram, discuss the concept of scarcity and opportunity cost.
                                                                              (8 marks)
(b)   Discuss four properties of an indifference curve.   (8 marks)

(c)   Discuss the assumption made under ordinal utility approach.   (4 marks)

QUESTION FOUR

(a)   Given the following equation

$Y = 6000 - 0.5P_Y - 2.6P_W + 2.4P_X + 0.854I$
Suppose further that;

$Q_Y = 18,000$	$P_X = 24,000$	$P_Y = 30,000$
$I = 60,000$	$P_W = 26,000$	

Compute;

(i)   Own price elasticity   (2 marks)
(ii)   Cross price elasticity   (4 marks)
(iii)   Income elasticity of demand   (2 marks)

(b)   Using a diagram, discuss the effect of increase in price on the stable equilibrium in the market.   (6 marks)

(c)   Using the concept of indifference curve and budget line, discuss the point of equilibrium of the consumer.   (8 marks)