

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF BACHELOR DEGREE IN
BCOM 102 / ECON 111: PRINCIPLES OF MICROECONOMICS**

STREAMS:

TIME: 2 HOURS

DAY/DATE: MONDAY 14/12/2020

2.30 P.M -4.30 P.M.

INSTRUCTIONS TO CANDIDATES:

QUESTION ONE

- a) Distinguish between the following
 - i. Engel’s curve and demand curve [2 Marks]
 - ii. Shifts in the demand curve and movement along the demand curve.[2 Marks]
- b) Briefly explain four sources of monopoly power in an economy. [4 Marks]
- c) Explain the properties of indifference curves [10 Marks]
- d) Demonstrate with the aid of a diagram the derivation of Engels curve. [4 Marks]
- e) Given the following items calculate the TR, AR and MR. [6 Marks]

Q	P	TR	AR	MR
20	120			
40	200			
60	300			
80	360			

- f) The following is the demand function of good 1

$$Q_1 = 160 - 5P_1 + 3P_2$$

Where Q1 is the quantity demanded of good 1

P₁ is the price of good 1

P_2 is the price of good 2

Suppose $P_1 = 20$ and $P_2 = 30$

Calculate own price elasticity of demand and cross price elasticity of demand and interpret your results. [6 Marks]

QUESTION TWO

- a) 'Production will only take place at the range over which marginal product of factors is diminishing but positive'. Prove this statement with the help of a diagram. [10 Marks]

- b) With the help of well-labelled diagrams, distinguish between maximum price policy and minimum price policy. What are the major consequences of each of these price control measures ? [10 Marks]

QUESTION THREE

- a) Explain giving relevant examples how the following factors influence quantity supplied in an economy.
 - i) Objective of the firm
 - ii) Taxation policies of the government
 - iii) Subsidies
 - iv) Price of Competing products
 - v) Technological advancement [10 Marks]

- ii) A firm in a monopolistic competitive market has a demand curve given by $Q = 200 - 10P$. Its cost function is given as $C = 50 + 4q$. Compute the firm's equilibrium price, quantity and profit. [10 Marks]

QUESTION FOUR

- a) With the aid of a diagram discuss the short-run and Long-run equilibrium of a monopolist. [10 Marks]

- b) Explain the main assumptions and weaknesses of cardinal consumer utility theory. [10 Marks]

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