CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA/EMBU/NAIROBI CAMPUS

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM **TIME: 2 HOURS**

DAY/DATE: FRIDAY 08/08/2025 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:

- **Answer question ONE and any other TWO questions**

QUESTION ONE

(a) Distinguish between the following economics terms;

i. Supply and demand

ii. Microeconomics and macroeconomics

iii. Demand curve and supply curve

iv. Cardinal utility and ordinal utility (8 marks)

(b) Given the following functions:

$Q_1 = ss - sP$

$Q_2 = 1s + sP$

i. Identify the demand and supply functions giving the reasons for each (2 marks)

ii. Compute the equilibrium price and quantity (4 marks)

(c) Discuss reasons for the exceptions of the law of demand (6 marks)

(d) Discuss the sources of monopoly power. (6 marks)

(e) Clearly discuss the characteristics of perfect monopolistic market. (4 marks)

QUESTION TWO

(a) Using their characteristics, distinguish between perfect competitive firm and oligopoly. (10 marks)

(b) Explain the conceptual difference between cardinal and ordinal utility, hence explain the assumptions made under each approach. (10 marks)

QUESTION THREE

(a) Given the total cost function below:

$TC = 3050 + 250Q - 20Q^2 + Q^3$

(i) Determine average fixed cost when output is 10 units (2 marks)

(ii) Compute the total cost and total variable cost at the level when Q=20 (4 marks)

(iii) Find the level of marginal cost at the level when Q= 5 units (4 marks)

(b) Discuss the effect of increase and decrease in price on the stable equilibrium in the market. (10 marks)

QUESTION FOUR

(a) Using a well labeled diagram, discuss the concept of scarcity and opportunity cost. (6 marks)

(b) Discuss the three stages of production using a diagram. (10 marks)

(c) Differentiate between movement along supply curve and shift of supply curve using diagram (4 marks)

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