

CHUKA

UNIVERSITY



UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM (ODEL)

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 terms;

- (i) Fixed cost and variable cost (2 marks)
- (ii) Giffen goods and Veblen goods (2 marks)
- (iii) Positive and normative economics (2 marks)
- (iv) Microeconomics and macroeconomics (2 marks)
- (v) Demand curve and Engels curve (2 marks)

(b) Given the total cost function below:

$$TC = 1000 + 100Q - 15Q^2 + Q^3$$

- (i) Determine variable cost when the output (Q) is 10 units (2 marks)
- (ii) Compute the total and average costs at the level of (10 units) (4 marks)
- (iii) What is the level of marginal cost at the level of 12 units of production? (2 marks)

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

(d) Discuss the exceptions to the law of demand. (6 marks)

QUESTION TWO

- (a) Discuss the effect of increase and decrease in price on the stable equilibrium in the market. (10 marks)
- (b) Discuss the three stages of production using a diagram. (10 marks)

QUESTION THREE

- (a) Discuss the concept of scarcity and opportunity cost (6 marks)
- (b) Discuss four properties of an indifference curve. (4 marks)
- (c) Discuss the assumption made under ordinal utility approach. (10 marks)

QUESTION FOUR

- (a) Using the concept of indifference curve and budget line, discuss the point of equilibrium of the consumer. (8 marks)
- (b) The total cost in thousands of shillings (TC) of producing Q units of a product is given by the following function.

$$TC = 1000 + 2Q^3 - 12Q$$

Calculate;

- (i) Total fixed cost (2 marks)
- (ii) The output level that will minimize the marginal cost. (4 marks)
- (iii) The marginal cost when the level of output is 5000 units. (2 marks)
- (c) Discuss the determinants of price elasticity of demand. (4 marks)

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