CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 19/4/2023 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:

- **Answer question ONE and any other TWO**
- **Do not write on the question paper.**

QUESTION ONE

a) Write short notes on the meaning of the following economic terms. (6 marks)

   I. Opportunity cost
   II. Scarcity
   III. Choice

b) Discuss the two approaches to the study of economics. (4 marks)

c) Elucidate the distinction between giffen good and an inferior good. (2 marks)

d) With the aid of relevant examples, discuss 3 exemptions to the law of demand. (6 marks)

e) Given the following function

θ_1=15-3p

θ_2= 3 + 3p

   I. State the demand and supply functions respectively. (2 marks)
   II. Determine the equilibrium market price and quantity. (4 marks)

QUESTION TWO

a) Discuss the factors that influence the level of quantity demanded in a given market. (10 marks)

b) With the aid of a well labeled diagram, discuss the stages of production and highlight the best stage for a rational producer. (10 marks)

QUESTION THREE

a) Consider the following function:

$TC = 4988 + 620q – 3Q^2 + Q^3$

i) Find the average fixed cost when the output (Q) is 2 units. (2 marks)

ii) Determine 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 9 units of production. (4 marks)

b) Discuss the source of monopoly power in the market. (10 marks)

QUESTION FOUR

a) The current equilibrium price for maize flour is Ksh 200 per packet. Suppose the government put a maximum price of Ksh. 100, explain with illustration the consequences of this action. (10 marks)

b) The supply of eggs in Ndagani market keeps changing at various times of the year. Clearly explain the factors that lead to the changes in supply. (10 marks)

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