

CHUKA

UNIVERSITY



UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
PROJECT PLANNING AND MANAGEMENT AND BACHELOR OF  
COMMERCE**

**ECON 111: PRINCIPLES OF MICROECONOMICS**

**STREAMS: PPMA, BCOM (ODEL)**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 14/04/2025**

**2.30 P.M. – 4.30 P.M.**

**INSTRUCTIONS**

- **Answer Question One and any other two.**

**QUESTION ONE**

- Explain the difference between the following terms as used in Economics (6 marks)
  - Microeconomics and Macroeconomics
  - Normal good and inferior good
  - Budget line and Isocost line
- State and explain any three applications of the law of Diminishing Marginal Utility (6 marks)
- The government occasionally regulates the prices of various commodities through two key policies: minimum price policies and maximum price policies. Discuss these policies and explain how they result in demand and supply disequilibrium. (10 marks)
- With the aid of a well labeled diagram demonstrate the short-run equilibrium of a firm under perfect competition (8 marks)

**QUESTION TWO**

- "Demonstrate, using a diagram, that production occurs exclusively within the range where the marginal product of factors remains positive but diminishing (10 marks).

- b. State and explain the factors that influence market supply of a good or service (10 marks)

**QUESTION THREE**

- a) With the aid of a diagram describe average and marginal costs as used in Cost theory (10 marks)

- b) Given the following demand function of a consumer;

$$Q_y = 200 - 0.02P_y + 0.56P_x - 2.3P_w + 0.000 P_z + 3.5I$$

Where;

$P_x=20$ ,  $P_y=30$ ,  $P_w=10$  and  $P_z = 15$  are the prices of good X, Y and Z and  $I = 10,000$  which is the income of the consumer.

Find the following;

- (i) Price elasticity of demand of good y in relation to price of x, w and z. (3 marks)
- (ii) From (i) above, state the relationship between good y and good x, w and z. (3 marks)
- (iii) Income elasticity of demand for good y. (2 marks)
- (iv) From (iii) above, what type of product would y be? (2 marks)

**QUESTION FOUR**

- a) Using their characteristics, distinguish between monopolistic and oligopolistic markets (10 marks)
- b) Discuss the various ways indifference curves analysis can be applied in the economic theory. (10 marks)

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