



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EET 100: MICROECONOMICS THEORY I

DATE: 18/01/2021

TIME: 8.30-10.30 AM

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## INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions
- (ii) Do not write on the question paper
- (iii) Show your working clearly

## QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Write short notes on the following
  - i. Consumer sovereignty
  - ii. Scarcity and choice
  - iii. Opportunity cost
  - iv. The production possibility frontier
  - v. Scale of preference (10 marks)
- b) Briefly explain the differences between a free-market system and a command market system (10 marks)
- c) Distinguish between the shift in demand curve and movement along the demand curve (6 marks)
- d) Given the following function;  
 $Q_d = 4250 - 290P$

$$Q_s = 1280 + 360P$$

Determine the equilibrium price and quantity

(4 marks)

### **QUESTION TWO (20 MARKS)**

- a) Distinguish between own price elasticity and cross elasticity of demand (4 marks)
- b) Briefly explain the factors that affect own price elasticity of demand for a commodity (8 marks)
- c) Briefly explain the application of the concept of indifference curve analysis. (8 marks)

### **QUESTION THREE (20 MARKS)**

- a) Briefly discuss characteristics of perfect competition and explain why individual firms are price takers. (10 marks)
- b) With the aid of a diagram analyze short term profit maximization for a monopolist (10 marks)

### **QUESTION FOUR (20 MARKS)**

- a) Consider a consumer who consumes two normal goods X1 and X2. Suppose the price of X1 reduces, use an appropriate diagram to illustrate the effect of this price changes, while separating the income and substitution effects (7 marks)
- b) Suppose now good X1 is an inferior good, explain with a diagram the effect of the price change in each of the cases (7 marks)
- c) Distinguish between ordinal and cardinal approach in consumer theory (6 marks)

### **QUESTION FIVE (20 MARKS)**

- a) Discuss the concept diminishing marginal utility and the three stages of production (10 marks)
- b) Define the term economies of scale and explain different types of internal economies of scale. (10 marks)