# MACHAKOS UNIVERSITY

**University Examinations for 2018/2019 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ECONOMICS**

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR**

**DIPLOMA IN PROCUREMENT**

**DPS 102: PRINCIPLES OF ECONOMICS**

**DATE: 10/5/2019** **TIME: 8.30-10.30 AM**

**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) Briefly distinguish between a free market system and command market system (8 marks)

b) Briefly define the law of diminishing returns and explain its assumptions. (6 marks)

c) Discuss the main sources of monopoly power for a firm (8 marks)

d) The following table shows the prices, quantity demanded and supplied foe commodity x.

| Prices | quantity demanded | quantity supplied. |
|---|---|---|
| 5 | 60 | 12 |
| 10 | 55 | 16 |
| 15 | 45 | 20 |
| 20 | 40 | 24 |
| 25 | 35 | 28 |
| 30 | 30 | 32 |
| 35 | 25 | 36 |
| 40 | 20 | 40 |
| 45 | 15 | 44 |
| 50 | 10 | 48 |

Required;
Determine the equilibrium price and quantity (8 marks)

**QUESTION TWO (20 MARKS)**

a) With the aid of a diagram explain the concept of consumer equilibrium (6 marks)

b) Briefly distinguish between cardinal and ordinal utility (8 marks)

b) Briefly explain the application of the concept of indifference curve analysis. (6 marks)

**QUESTION THREE (20 MARKS)**

a) Explain the main characteristics of a perfect market structure. (10 marks)

b) With the aid of a diagram explain the equilibrium of a monopoly in the short run. (10 marks)

**QUESTION FOUR (20 MARKS)**

a) Distinguish between own price elasticity and cross elasticity of demand (4 marks)

b) Explain the main factors that affect price elasticity of demand. (8 marks)

c) Discuss the factors that will lead to an inward shift in supply curve (8 marks)

**QUESTION FIVE (20 MARKS)**

a) Discuss the following factor markets;

i) Land

ii) Labour

iii) Capital

iv) Entrepreneurship. (10 marks)

b) With the aid of a diagram explain the three stages of production (10 marks)