MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR BACHELOR OF EDUCATION

EET: MICROECONOMICS THEORY I

Date: SCHOOL BASED **Time:**

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE (Compulsory)

a) Clearly distinguish between

   i) A giffen good and an inferior good (4 marks)

   ii) Elasticity of demand and elasticity of supply (4 marks)

   iii) Stable equilibrium and unstable equilibrium (4 marks)

   iv) Isoquants and indifference curves (4 marks)

b) Explain the reasons for the downward sloping demand curve. (6 marks)

c) Explain the short run equilibrium of a firm under perfect competition. Illustrate your answer (8 marks)

QUESTION TWO

a) The demand function for a good k is given by:

$Q_k = 1000 - 2.5P_k - 0.65P_w + 3P_x + 2M$

Where;

Q_k = Quantity demand of good k

P_k = Price of good k

P_w and P_x - Prices of related good W and X

M= income

Given P_x = sh. 1750, P_K = shs. 1000, P_w = sh 3000

M = shs 1,000

Required:

i) Compute income elasticity of demand. From the income elasticity of demand is good K a luxury good or a necessity good? Explain (6 marks)

ii) Compute cross price elasticities of demand between good k and w and interpret your results and show how commodity k and w are related (5 marks)

b) Explain using an illustration how diminishing marginal utility relates to the shape of the conventional demand curve (5 marks)

c) Why is PPF concave to the origin? What would be implied by a PPF represented by a straight line (4 marks)

QUESTION THREE

a) With the following cost data compute total costs, average fixed costs, average variable cost, average total costs and marginal costs. Plot your results. Assume fixed cost to be 50 (12 marks)

Q	0	1	2	3	4	5	6	7	8	9	10	11
TVC	0	100	190	270	340	420	510	610	720	840	990	1190

b) State and explain factors that determine elasticity of supply (8 marks)

QUESTION FOUR

a) Explain the causes of monopoly power (8 marks)

b) Price floors and price ceilings cause distortions in the affected markets and can cause the market not to clear, using a well labeled diagram show how they cause market distortions (12 marks)

QUESTION FIVE

a) What are the assumptions of ordinal approach (5 marks)

b) Explain five factors determine the quantity demanded of a commodity (10 marks)

c) Graphically demonstrate the consumer surplus (5 marks)