



MACHAKOS UNIVERSITY COLLEGE

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

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

EET 100: MICROECONOMIC THEORY1

DATE: 9/8/2016

TIME: 2:00 – 4:00 pm

INSTRUCTIONS:

Answer question ONE and any other two question

QUESTION ONE

- a) Explain factors affecting demand and supply (12 marks)
- b) You are given the following economic functions:

$$Q_1 = 36 - \frac{1}{3}p;$$

$$Q_2 = -9 + \frac{1}{2}p$$

Where P is the market price for a particular good.

- i) Identify with reasons the demand and supply functions.
- ii) Explain the negative intercept of the second function Q_2 above.
- iii) Derive the point elasticity of demand and supply if $P=10$ and $Q = 5$ from the above functions (10 marks)
- c) Distinguish between the short run, long run, fixed and variable factors. (8 marks)

QUESTION TWO

- a) With the aid of equations and graphs, Show that consumer Satisfaction is maximized where the slope of indifference curve is equal to the slope of budget line. (10 marks)
- b) Using the ordinalist approach, explain the consumer equilibrium and show how the demand curve for a normal good is derived. (10 marks)

QUESTION THREE

- a) Differentiate between the economic concepts given below
- i) Law of Diminishing Returns and return to scale (4 marks)
 - ii) Normal good, Veblen good, Giffen good and inferior good (8 marks)
- b) With Aid of a well-labelled diagram, differentiate between substitution and income effect for normal good. (18 marks)

QUESTION FOUR

- a) Clearly distinguish between each of the following pairs of concepts.
- i) Market economic system and Command economic system.
 - ii) Choice and Opportunity cost
 - iii) Demand curve and Demand function
 - iv) Movement along and shift of the demand and supply curves. (20 marks)

QUESTION FIVE

- a) Briefly explain the laws of demand and supply. (4 marks)
- b) Differentiate between isoquants and Indifference curve. (4 marks)
- c) Determine the equilibrium quantities of commodities x and z for a consumer whose total utility (U) and other relevant variables are given below;
- $$U = 20x - 4z^2 + 40z - x^2$$
- Income level $Y = Ksh.48$
- Price of $x(p_x) = ksh.2$
- Price of $z(p_z) = ksh.4$ (12 marks)