MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

EET 102: PRINCIPLES OF ECONOMICS

DATE: 10/8/2021 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS: Answer Question **ONE** and any other **TWO** Questions.

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

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Distinguish between these pairs of concepts as used in economics (10 marks)

i) Microeconomics and Macroeconomics

ii) Indifference Curve and Isoquant

iii) Marginal Rate of Substitution and Marginal Rate of Technical Substitution

iv) Demand and Supply

v) Substitutes and Complements

b) Explain **four** sources of monopoly power (8 marks)

c) Using the following demand and supply functions for a commodity:

$Q_d = 100 - 2p$; $Q_s = 40 + 4p$

i) With reasons, identify the demand and supply functions. (2 marks)

ii) Compute the equilibrium price and quantity. (2 marks)

d) Explain **four** factors that affect the price elasticity of demand for a commodity. (8 marks)

QUESTION TWO (20 MARKS)

a) Explain **five** factors that will lead to an outward/ rightward shift of a demand curve (10 marks)

b) Using a well labelled diagram, illustrate and explain the short-run and long-run profit maximization under a monopoly (10 marks)

QUESTION THREE (20 MARKS)

a) Using a diagram, explain the relationship between ATC, AVC and MC (10 marks)

b) The global economy is recovering from the adverse effects of the COVID-19 pandemic. The pandemic led to a recession in many economies which was characterized by reduced demand and supply of goods and services. From your knowledge about demand and supply, explain the measures that the government should undertake in order to increase the supply of goods and services in the domestic economy. (10 marks)

QUESTION FOUR (20 MARKS)

a) The table below represent hypothetical figures for total utility derived from consumption of three goods A, B and C by a student from Machakos University. The prices of A, B and C are Ksh 5,3 and 2 respectively.

No of Units Consumed	Total Utility TUa	Total Utility TUb	Total Utility TUc
2	144	120	128
4	240	208	240
6	320	272	320
8	382	320	376
10	456	360	408
12	496	376	432
14	520	384	448

Required

i) Marginal utilities for each good (6 marks)

ii) The optimal quantities of each good for consumption (4 marks)

b) Explain **five** characteristics of a perfectly competitive market structure (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain **five** factors that affect the price elasticity of supply of a commodity (10 marks)

b) Explain **five** axioms of the ordinalist approach of consumer theory (10 marks)