



# MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE)

EET 100: MICROECONOMIC THEORY I

DATE: 22/7/2019

TIME: 2:00 – 4:00 PM

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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.
- iv) Written material or electronic gadgets including mobile phones are not allowed in exam room.

## **QUESTION ONE(COMPULSORY) (30 MARKS)**

- a) Differentiate the following terms:
  - i) Cross elasticity of demand and Income elasticity of demand (4 marks)
  - ii) Indifference curve and Isoquant. (4 marks)
  - iii) Veblen good and Giffen good. (4 marks)
  - iv) Price ceiling and price floor. (4 marks)
- b) Outline the relationship between short-run and long- run costs. . (5 marks)
- c) Distinguish between producer surplus and consumer surplus. (5 marks)
- d) Explain the assumptions of the ordinalist approach to utility. (8 marks)

## QUESTION TWO (20 MARKS)

The table below represents the short run production costs data for a firm.

|                          |     |     |     |     |     |     |     |     |     |
|--------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Output<br>(Units)        | 0   | 10  | 20  | 30  | 40  | 50  | 60  | 70  | 80  |
| Total<br>Cost<br>(Units) | 150 | 210 | 260 | 420 | 455 | 560 | 680 | 750 | 920 |

- a) Derive: the:
- i) Average Total Cost. (2 marks)
  - ii) Average Variable cost. (2 marks)
  - iii) Marginal Cost. (2 marks)
  - iv) Diagrammatically show how they are related. (4 marks)
- b) Draw the :
- i) Total Cost Curve. (3 marks)
  - ii) Marginal Cost curve. (2 marks)
- c) Differentiate with relevant examples the concepts of normative economics and positive economics. (5 marks)

## QUESTION THREE (20 MARKS)

- a) Explain with relevant examples the sources of Monopoly power (9 marks)
- b) The demand and supply functions of a firm are given below.

$$Q_d = 200 - 2P$$

$$Q_s = -20 + 2P$$

Determine the equilibrium price and equilibrium quantity. (6 marks)

- c) Explain five factors that influence the supply of a commodity. (5 marks)

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

- a) With the help of diagrams explain the three stages of production and explain why the firm will operate in the second stage. (8 marks)
- b) Define the concept of demand and explain the factors that affect a commodity's demand. (6 marks)
- c) Using an illustration explain long run equilibrium of a perfectly competitive firm. (6 marks)

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

- a) Explain the concept of Elasticity of supply and explain the factors that determine it. (10 marks)
- b) Differentiate between Macroeconomics and Microeconomics. (4 marks)
- c) Describe briefly the practical importance of the concept of elasticity to:
  - i) A firm, (3 marks)
  - ii) The government. (3 marks)