MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EET 100: MICROECONOMICS THEORY I

DATE: **TIME: ______________**

INSTRUCTIONS TO CANDIDATES

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (20 MARKS)

a) Write short notes on the following

i) Consumer sovereignty
ii) Scarcity and choice
iii) Opportunity cost
iv) The production possibility frontier (10 marks)

b) Briefly explain the differences between a free market system and a command market system (10 marks)

c) Distinguish between the shift in demand curve and movement along the demand curve (6 marks)

d) Explain the factors that may cause an outward shift in supply curve (4 marks)

QUESTION TWO (20 MARKS)

a) Discuss the economic meaning of costs and profit (4 marks)

b) Distinguish between the short run, long run, fixed and variable factors (6 marks)

c) Explain the shape of the production function and Law of Diminishing Returns (6 marks)

d) Using the following demand and supply functions for a commodity *x*, compute the equilibrium price and quantity. (4 marks)

$$Q_d = 100 - 2p; \qquad Qs = 40 + 4p$$

QUESTION THREE (20 MARKS)

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

b) Briefly explain the factors that affect own price elasticity of demand for a commodity. (8 marks)

c) Briefly explain the application of the concept of indifference curve analysis. (8 marks)

Question Four

Consider the production data below where labour is the variable factor of production:

Labour (hrs)	Total Physical Products
1	15
2	35
3	60
4	90
5	120
6	144
7	158
8	160
9	160
10	158

a) Find the average physical products and marginal physical products at each level of labour. (8 marks)

b) Using the data, illustrate and explain the three stages of production in the short-run (12 marks)

QUESTION FIVE (20 MARKS)

a) Briefly discuss characteristics of perfect competition and explain why individual firms are price takers. (10 marks)

b) With the aid of a diagram analyze short term profit maximization for a monopolist

(10 marks)