



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2013 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT ACCOUNTING AND FINANCE

DIPLOMA IN BUSINESS MANAGEMENT

CED 071: PRINCIPLES OF MICROECONOMICS

Date: April 2013

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Explain the following terms briefly:
- i) Scarcity and choice (2 marks)
 - ii) Short run and long run in production (2 marks)
 - iii) Positive and normative economics (2 marks)
- b) Demand curves are drawn assuming that all factors affecting demand for a commodity other than the price of the commodity are held constant. State **five** such factors. (5 marks)
- c) State **four** characteristics of monopolistic competition markets. (4 marks)
- d) Distinguish between fixed costs and variable costs of production. (3 marks)
- e) Briefly explain the **three** classifications of price elasticity of demand. (6 marks)
- f) State the **four** factors traded in factor market. (4 marks)
- g) Describe briefly the term indifference curves. (2 marks)

- Q2. a) Distinguish clearly between the terms “movement along demand curve” and “shift of demand” curve. **(4 marks)**
- b) State **five** properties of indifference curves. **(5 marks)**
- c) Explain briefly the effect of an imposition of sales tax on quantity supplied. **(4 marks)**
- d) List **five** characteristics of perfect competition markets. **(5 marks)**
- e) Give **two** examples of perfect markets. **(2 marks)**

- Q3. a) The following data refer to quantity of sweets demanded by students in given school.

Price (Ksh)	Quantity demanded
1	100
1.10	80

Required:

- i) Calculate the price elasticity of demand considering a price increase from ksh. 1.00 to Ksh. 1.10. **(3 marks)**
- ii) Calculate the price elasticity of demand when price decreases from Ksh. 1.10 to Ksh. 1.00. **(3 marks)**
- b) State the characteristics of monopoly. **(5 marks)**
- c) Identify **four** factors that can cause a shift in supply of a good or service. **(4 marks)**
- d) Briefly explain the concept of costs of production. **(5 marks)**
- Q4. a) Explain briefly the term “Market equilibrium”. **(3 marks)**
- b) using a suitable diagram explain the two forms of market disequilibrium. **(5 marks)**

- c) State four determinants of price elasticity of demand. (4 marks)
- d) Distinguish clearly between the “law of demand” and “law of supply” (4 marks)
- e) Using a suitable diagram, distinguish between market supply and individual supply. (4 marks)

END