****

**SOUTH EASTERN KENYA UNIVERSITY**

**UNIVERSITY EXAMINATIONS 2012/2013**

**FIRST YEAR EXAMINATIONS FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURE, HORTICULTURE, FORESTRY AND RANGE MANAGEMENT**

 **ENF 215/AEC 206: PRINCIPLES OF MICROECONOMICS**

**DATE: 10th June, 2013 TIME: 2HRS**

**INSTRUCTIONS: Answer Question ONE and any other Two**

**QUESTION ONE (Total 30 marks)**

1. Explain the relationship between scarcity and choice. (3 marks)
2. Distinguish between the following concepts as used in economics.
	1. Positive and Normative economics. (2 marks)
	2. Normal goods and Inferior goods (2 marks)
	3. Opportunity costs and Marginal costs. (2 marks)
3. Using a well labeled diagram, explain the meaning of consumer equilibrium in relation to ordinal utility analysis. (5 marks)
4. Using well labeled diagrams, distinguish between change in demand and change in quantity demanded. (5 marks)
5. Using a well labeled diagram, explain the difference between the price floor and price ceiling as used in price control. (6 marks)
6. Explain **five** factors that may influence price elasticity of supply for a product. (5 marks)

**QUESTION TWO**

1. Highlight **four** sources of Monopoly power. (4 marks)
2. Using well labeled diagrams, explain how a monopoly firm determines its equilibrium price and output. (10 marks)
3. Explain **four** characteristics of indifference curves (6 marks)

**QUESTION THREE**

* 1. Using a well labeled diagram the meaning of the kinked demand curve. (4 marks)
	2. Explain the law of variable proportions and state **four** conditions under which it will not apply. (6 marks)
	3. Identify **five** salient features of perfectly competitive markets. (10 marks)

**QUESTION FOUR**

1. Explain the meaning of cross elasticity of demand. (2 marks)
2. The quantity demanded per week of commodity A is 5000 units when the price of commodity B Shs. 300. If the price of commodity B increases to Shs. 500, the quantity demanded of commodity A increases to 8000 units.

Required

1. Calculate the cross elasticity of demand for commodity A and B. (5 marks)
2. Interpret your results. (3 marks)
3. Explain **four** areas in which the concept of elasticity can be applied. (4 marks)
4. Explain **three** factors that may hinder mobility of labour and suggest **four** ways in which the mobility can be improved. (6 marks)

**QUESTION FIVE**

1. Distinguish between ordinal and cardinal approaches to utility analysis (4 marks)
2. Highlight **four** assumptions of the law of diminishing marginal utility. (4 marks)
3. A firm has the following cost structure:

 Output Total Cost (Sh) FC (Sh) TVC (sh) ATC (Sh) MC (Sh) TR (Sh) Profit (Sh)

 0 80

 1 100

 2 140

 3 210

 4 280

5 400

6 600

 Define and calculate the following for the firm:

 (i) Fixed cost; (2 marks)

 (ii) Average total cost schedule; (3 marks)

 (iii) Marginal cost schedule. (4 marks)

 If the industry price is fixed at Sh. 120, calculate the firm’s:

 (iv) Profit-maximizing level of output; (2 marks)

 (v) Maximum achievable profit. (1 mark)