THE CATHOLIC UNIVERSITY OF EASTERN

AFRICA

A.M.E.C.E.A

**MAIN EXAMINATION**

**MAY-JULY 2017 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

CEC111: INTRODUCTION TO MICROECONOMICS

**DURATION: 2HOURS**

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

$250000. What is the average total cost of producing 5 cars? What is the marginal cost of the

Fifth car? **(5 marks)**

**b)** Draw the marginal cost curve and the average total cost curve for a typical firm, and explain why

these curves cross where they do so. (5 marks)

**C)** If Toyota produces 9 cars per month, it’s long run total cost is $9.0 million per month. If it

Produces 10 cars per month, it’s long run total cost is $9.5 million per month. Does Toyota

Exhibit economies or diseconomies of scale (5 marks)

**d)** How does a competitive firm determine its profit maximizing level of output? When does a

profit maximizing competitive firm decide to shut down? When does a profit maximizing firm

decide to exit the market? Please illustrate graphically. (5 marks)

**e)** Draw the demand, marginal revenue, average total cost, marginal cost curves for a monopolist.

Show the profit maximizing level of output, the profit maximizing price, and the amount of

Profit. (5 marks)

**f)** List the three main characteristics of monopolistic competition. Draw and explain a diagram to

show the long run equilibrium in a monopolistically competitive market. how does this

equilibrium differ from that of perfectly competitive market? **(5 marks)**

**Q2. A)** Define price ceiling and price floor give an example of each. Which leads to shortage and which

Leads to surplus? **(5 marks)**

**b)** Illustrate graphically the veriety of demand and supply curves according to their elasticity. **(5 marks)**

**c)** Define price elasticity of demand, the income elasticity of demand and the gross price elasticity

of demand.

**d)** Suppose that a 10 percent increase in the price of an ice-cream causes the amount of an ice-

cream you buy to fall by 20 percent. Compute the price elasticity of demand. **(5 marks)**

**Q3. A)** What is market? Write down the main characteristics of the four types of markets. **(5 marks)**

**b)** What are the main factors that can bring shift in demand curve. **(5 marks)**

**c)** Write down the variables that can bring shift in supply curve **(5 marks)**

**d)** Distinguish between normal good, inferior good, substitute and complements. **(5 marks)**

**Q4. A)** Using the following schedule, define the equilibrium price and quantity **(5 marks)**

**b)** Describe the situation at the price of $10 **(5 marks)**

**c)** Describe the situation at the price of $2 **(5 marks)**

**d)** Suppose the government imposed a minimum price of $7, what would occur.

Illustrate **(5 marks)**

Price quantity demanded quantity suppied

**$1 500 100**

**$2 400 120**

**$3 350 150**

**$4 320 200**

**$5 300 300**

**$6 275 410**

**$7 260 500**

**$8 230 650**

**$9 200 800**

**$10 150 975**

**\*END\***