CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 102: PRINCIPLES OF MICROECONOMICS

STREAMS: BCOM   **TIME: 2 HOURS**

DAY/DATE: TUESDAY 2/08/2016   **2.30 PM – 4.30 PM**

INSTRUCTIONS:

QUESTION ONE

(a)   Write short notes on the following fundamental economics concepts:

     (i)   Scarcity and choice   [5 marks]

     (ii)   Opportunity cost   [5 marks]

     (iii)   Production possibility frontier   [5 marks]

     (iv)   Positive and normative economics   [5 marks]

(b)   Using specific examples explain the term "ceteris paribus" as used in economics.
                                                                            [5 marks]

(c)   Clearly explain the distinction between supply, demand and equilibrium price.
                                                                            [5 marks]

QUESTION TWO

(a)   Write short notes on market equilibrium.   [6 marks]

(b)   Using the following demand and supply functions of a commodity X, compute the equilibrium price and quantity.

$Q_D = 100 - 2p$
$Q_S = 40 + 4p$ [4 marks]

(c)   Ceteris paribus, use diagrams to illustrate the effects on the values in (b) above from

     (i)   A fall in price of X substitute.   [4 marks]

     (ii)   A simultaneous increase in input prices and a rise in consumer income.
                                                       [6 marks]

QUESTION THREE

(a)   Distinguish between own-price elasticity of demand and cross price elasticity of demand.
                                                            [10 marks]

(b)   Briefly discuss factors which affect the own price elasticity of demand.   [4 marks]

(c)   Discuss the usefulness of these parameters in management of economic decision.
                                                            [6 marks]

QUESTION FOUR

(a)   Define marginal utility and clearly explain the axiom of diminishing marginal utility.
                                                            [6 marks]

(b)   Illustrate and explain the following:

     (i)   Consumer equilibrium under the cardinalist approach.   [7 marks]

     (ii)   Consumer equilibrium under the ordinalist approach.   [7 marks]

QUESTION FIVE

(a)   A consumer income is kshs. 400. The consumer uses his entire income to buy two goods X and Y. If the price of good X is kshs.2 and the price of good Y is kshs. 4.

     (i)   Derive the consumer budget equation.   [2 marks]

     (ii)   Find the effect of a fall in income to kshs. 300 on the vertical intercept horizontal intercept and the slope of the budget line.   [8 marks]

(b)   (i)   State the main sources of monopoly power.   [4 marks]

     (ii)   In what ways does a perfect market differ from a monopoly oligopoly and monopolistic competition?   [6 marks]