



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR DIPLOMA/CERTIFICATE IN BUSINESS ADMINISTRATION/DIPLOMA IN PURCHASING AND SUPPLIES MANAGEMENT

DBA 0106: INTRODUCTION TO MICROECONOMICS

DATE: AUGUST 2011

TIME: 1½ HOURS

INSTRUCTIONS: Answer question one and any other *two* questions

QUESTION ONE – (30 MARKS)

(a) Define the following concepts in economics:

- (i) Microeconomics (2 Marks)
- (ii) Scarcity (2 Marks)
- (iii) Opportunity costs (2 Marks)
- (iv) Choice (2 Marks)
- (v) Positive economics (2 Marks)
- (vi) Marginal cost (2 Marks)
- (vii) Marginal utility (2 Marks)

(b) The following are the assumed supply and demand schedules for rugby balls

Demand Price(sh)	Quantity Demanded	Supply Price (sh)	Quantity Supplied
780	6,000	780	71,000
660	13,000	660	63,000
540	29,000	540	29,000
420	50,000	420	11,000
300	61,000	300	0

Plot the supply and demand curves and indicate the equilibrium price and quantity.

(8 Marks)

(c) Explain four main factors of production that may be used by a firm

(8 Marks)

QUESTION TWO – (20 MARKS)

- (a) Define demand for and supply of goods and services. (4 Marks)
- (b) Explain various factors that influence demand for goods and services. (10 Marks)
- (c) Define an economic system and outline the advantages of the market system in an economy. (6 Marks)

QUESTION THREE – (20 MARKS)

- (a) Explain what you understand by the following:
 - (i) Price elasticity of demand (4 Marks)
 - (ii) Cross elasticity of demand (4 Marks)
- (b) The following data represent the cost and revenue schedules of a pure monopolist:

Quantify	Total revenue (Shs)	Total Costs (Shs)
5	500	350
10	900	550
15	1,200	675
20	1,400	800
25	1,500	1,125
30	1,500	1,800
35	1,400	2,800

Calculate average revenue, Marginal revenue, average total costs and marginal costs. (12 Marks)

QUESTION FOUR – (20 MARKS)

- (a) (i) Define point and arc elasticity of demand. (2 Marks)
- (ii) The demand for a commodity is four units when the price is Shs800 per unit. When price per unit falls to Shs500 the demand raises to six units. Compute the point and arc elasticity of demand and interpret your result. (8 Marks)
- (b) (i) What do you understand by the term an “indifference curve” (2 Marks)
- (ii) Illustrate and clearly explain the nature of indifference curves for perfect substitutes and for complementary goods. (8 Marks)

QUESTION FIVE – (20 MARKS)

- (a) Explain the factors that determine the supply and demand of the factors of production. (10 Marks)
- (b) Explain the following market structures:
 - (i) Perfectly competitive market (5 Marks)
 - (ii) Monopoly (5 Marks)