



A Constituent College of Kenyatta University

UNIVERSITY EXAMINATIONS 2010/2011 ACADEMIC YEAR

1st YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE OF

**DEGREE OF BACHELOR OF ARTS AND BACHELOR OF EDUCATION
ARTS & BACHELOR OF COMMERCE**

AEC 100: ELEMENTS OF MICROECONOMICS

END SEMESTER 1

TIME: 3 HRS

DAY/TIME: TUESDAY 2.00 TO 5.00PM

DATE: 29/11/2010(TF1)

INSTRUCTIONS:

Answer FOUR questions. Question ONE is COMPULSORY.

Q.1

- a) Using relevant illustration explain the following
 - i) Price effect (3mks)
 - ii) Income effect (3mks)
 - iii) Substitution effect (3mks)
- b) The slope of an indifference curve has a significant economic interpretation. With the aid of a diagram, explain the properties of an indifference curve. (8mks)
- c) Examine the concept of opportunity cost and discuss how it relates to the problem of choice between scarce alternatives. (8mks)

Q.2

- a) Write briefly on the following concepts
 - i) Marginal cost and average variable cost (4mks)
 - ii) Economies of scale and returns to scale (4mks)
- b) Briefly explain the reasons why both the short-run marginal cost curve and average cost curve are U-shaped. (7mks)

Q.3

- a) Analyze the relationship between utility maximization subject to a budget constraint and purposeful choice with limited resources. **(7mks)**
- b) Explain using diagrams the difference between a change in supply and a change in quantity supplied. **(4mks)**
- c) Discuss the major determinants of elasticity of demand. **(4mks)**

Q.4

- a) Explain the law of diminishing marginal utility. **(5mks)**
- b) State and explain the law of diminishing marginal rate of substitution **(5mks)**
- c) How far can this law be treated as an improvement over the law of diminishing marginal utility. **(5mks)**

Q.5

- a) Explain the concept of production function **(5mks)**
- b) Explain the concept of elasticity of demand. **(5mks)**
- c) Explain why a concept in (b) above should be of interest to anyone in business who has a choice to make about the price to sell their products. **(5mks)**

Q.6

- a) Distinguish between perfect competition and monopolistic competition. **(5mks)**
- b) Evaluate briefly whether monopolistic competition is wasteful. **(5mks)**
- c) Explain why a firm's price is likely to be lower and output higher in perfect competition than in monopoly. **(5mks)**