PRINCIPLES OF MICROECONOMICS (ECON 101) 1st trimester 2014

**KENYA METHODIST UNIVERSITY**

**END OF 1'***ST '***TRIMESTER 2014 (PT) EXAMINATION**

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| **SCHOOL** |  | : | BUSINESS AND ECONOMICS |
| **DEPARTMENT** | | : | ECONOMICS AND STATISTICS |
| **UNIT CODE** |  | : | ECON 101 |
| **UNIT** | TITLE | : | PRINCIPLE OF MICROECONOMICS |

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| **TIME: 2 HOURS** |

**INSTRUCTIONS**

*Answer question one and any other two questions*

**Question One (30 Marks)**

* Distinguish between a change in demand and a change in quantity demanded
* The price of a commodity x increased from Ksh.100 – 200 and this lead to a change in quantity demanded of Y from 1000 – 2000 units

Required:

* Calculate the gross elasticity of demand
* Interprete your recounts
* Clearly explain the assumptions of indifference curve approach (ordinal approach)
* Given the following economic functions distinguish between the demand and the supply function. Explain your answer

Qa = - 2P2 + 11P +200

Qb = - 12P +13 P2 – 100

**Question Two (20 marks)**

* Using a well labeled diagram describe the various stages in production process
* Distinguish between monopoly and monopolistic competition markets

**Question Three (20 marks)**

* The following is demand schedule for commodity X

|  |  |
| --- | --- |
| Price (Ksh.) | Quantity demanded (Kgs) |
| 100 | 1,000 |
| 80 | 1,200 |
| 60 | 1,400 |
| 40 | 1,600 |
| 20 | 1,800 |

Required

* Derive the demand functions
* Derive the supply function
* Calculate the equilibrium price and quantity

**Question Four (20 Marks)**

* Distinguish between price floor and price ceiling
* Clearly explain the factors that influence elasticity of demand

**Question Five (20 Marks)**

Write short notes on the following

* Gross elasticity of demand
* Indifference curves
* Price and substitution effects of a price change of a normal good
* Marginal rate of substitution
* Total cost of a production