Principles of Microeconomics (ECON 101) 3RD TRIMESTER 2014

**KENYA METHODIST UNIVERSITY**

**END OF 3'***RD '***TRIMESTER 2014 (FT) EXAMINATION**

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| **SCHOOL** |  | : | BUSINESS AND ECONOMICS |
| **DEPARTMENT** | | : | BUSINESS ADMINISTRATION |
| **UNIT CODE** |  | : | ECON 101 |
| **UNIT** | TITLE | : | PRINCIPLES OF MICROECONOMICS |

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| **TIME: 2 HOURS** |

**INSTRUCTIONS:**

* ***Answer question One and any other Two questions.***

**Question One**

* With aid of a well labeled diagram discuss the three ways of production with reference to marginal product total product and average product. (10 marks)

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| * Discuss the consumer equilibrium according to the cardinalist. What are the limitations of this theory? | (1o marks) | |
| * Distinguish between a monopoly and a monopolistic competitive market. |  | (10 marks) |

**Question Two**

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| * With aid of a well labeled graph distinguish between a change in demand and a change in quantity demanded. | (10 marks) |  |
| * Discuss at least five causes of abnormal demand curves. | (10 marks) | |

**Question Three**

* The following economic functions have been derived by the finance manager of Kenya Tea Limited:

Qa=3P2- 4p

Qb = 24-p2

Where P represent price and Q is the quantity

**Required:**

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| * Which of the two functions represent a demand curve and supply curve and why? | (4 marks) | |
| * At what values of price and quantity is the market in equilibrium |  | (6 marks) |
| * Explain with aid of a diagram, the effect on the demand and supply functions of a simultaneous decrease in cost of production and an increase in the price of a complimentary good. | (10 marks) | |

**Question Four**

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| * With aid of a well labeled diagram, distinguish between price floor and price ceillings. | (10 marks) | |
| * What are the major consequences of each of the price control measure? |  | (10 marks) |

**Question Five**

The following is a market schedule for Utawala Market

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| --- | --- | --- |
| Price (Kshs) | Quantity Demanded (Kgs) | Quantity supplied (Kgs) |
| 100 | 1200 | 2000 |
| 80 | 1400 | 1800 |
| 60 | 1600 | 1600 |
| 40 | 1800 | 1400 |
| 20 | 2000 | 1200 |

Required:

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| * Derive the demand curve | (6 marks) |
| * Derive the supply curve | (6 marks) |
| * Determine the equilibrium price and quantity | (12 marks) |