PRINCIPLES OF MICROECONOMICS (ECON 101) 1st trimester 2015

**KENYA METHODIST UNIVERSITY**

**END OF 1'***st '***TRIMESTER 2015 (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**

* The following is a market demand schedule for product X.

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| Price (Ksh) | Quantity Demanded (Kgs) | Quantity Supplied |
| 10 | 100 | 200 |
| 20 | 800 | 300 |
| 30 | 600 | 400 |
| 40 | 400 | 500 |
| 50 | 300 | 600 |

**Required:**

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| * Define the demand and supply function. |  |  | (6marks) |

* What is the quantity demanded at price ksh. 25 and 45. (4marks)

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| * Determine the equilibrium price and quantity. | |  | (4marks) |
| * Using the ordinalist approach show the income and substitution effects for a price decrease of a normal good. |  |  | (10marks) |
| * Discuss clearly the sources of monopoly power. |  |  | (6marks) |

**Question Two**

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| * Explain the causes of market disequilibrium. |  |  | (10marks) |

* Using a well labeled graph explain the stages of production. (10marks)

**Question Three**

* Given the following total cost function:

TC = 1000 +4002 +10Q

Determine:

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * The fixed cost |  |  |  |  |  |  |  | (2marks) |
| * The marginal cost |  |  |  |  |  |  | (4marks) | |
| * The average cost |  |  |  |  |  |  | (2marks) | |
| * The average variable cost. | | |  |  |  |  |  | (2marks) |
| * Discuss the TWO conditions for profit maximization. | | | | | | |  | (10marks) |

**Question Four**

* Explain clearly the THREE economic problems that face a nation.

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|  |  |  |  |  |  |  |  |  |  | (10marks) |
| * With aid of a well labeled graph explain the properties of indifference curves. | |  |  |  |  |  |  |  |  | (10marks) |

**Question Five**

Write short notes on the following:

* Marginal utility
* Opportunity cost
* Economic systems

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| --- | --- | --- | --- | --- | --- | --- | --- |
| * Oligopoly markets. |  |  |  |  |  |  | (20marks) |