Microeconomics (BUSS 111) (ECON 101) 2ND TRIMESTER 2015

**KENYA METHODIST UNIVERSITY**

**END OF 2'***ND '***TRIMESTER 2015 (SB) EXAMINATION**

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| **FACULTY** |   | : | EDUCATION, ARTS AND SCIENCES |
| **DEPARTMENT** | : | EDUCATION |
| **UNIT CODE** |   | : | BUSS 111/ECON 101 |
| **UNIT TITLE** | : | MICROECONOMICS |
| **TIME** |   |   | : | 2 HOURS |

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**INSTRUCTIONS:**

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

**Question One**

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| * Explain the meaning of the term elasticity of demand.
 | (2 marks) |
| * Following the price decrease of eggs from Kshs+. 5 to Kshs.3 the quantity demanded for eggs per day decreased from 45 to 60. Calculate the price elasticity of demand.
 | (6 marks) |

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| * Explain with examples the difference between real costs and opportunity costs.
 | (4 marks) |
| * Describe four main characteristics of perfect competition market structure.
 | (8 marks) |

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| * Define the term utility as used in micro economics.
 | (2 marks) |
| * Using a well labeled diagram explain the Law of diminishing marginal returns.
 | (8 marks) |

**Question Two**

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| * With relevant examples briefly explain the following concepts.
 | (10 marks) |

* Consumer preference
* Scarcity and choice
* Production possibility frontier (PPF)
* Social costs
* Price mechanism

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| * Explain the meaning of oligopolistic market structure and give a practical example in Kenya.
 | (4 marks) |
| * Discuss four characteristics of oligopoly market.
 | (4 marks) |

* Define cartels and give relevant examples.

**Question Three**

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| * Identify and explain five factors that may influence supply of a good or service.
 | (10 marks) |
| * With aid of a diagram explain how a firm operating monopolistic competition condition earns supernormal profits in the short run.
 | (10 marks) |

**Question Four**

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| * Price discrimination is a common practice with monopolists. Explain five conditions necessary for the success of price discrimination.
 | (10 marks) |
| * Briefly discuss the characteristics of land as a major factor of production.
 |   | (10 marks) |

**Question Five**

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| * Explain five main differences between partnerships and private limited companies.
 | (10 marks) |
| * With relevant examples explain the main uses and importance of indifference curves.
 | (10 marks) |