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University Examinations 2013/2014

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR DIPLOMA IN AGRICULTURE
AND
FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR CERTIFICATE IN
AGRICULTURE

BUS 0160: INTRODUCTORY ECONOMICS

DATE: APRIL 2014

TIME: 1 ½ HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE – (30 MARKS)

- (a) Explain the following terms:
- (i) Equilibrium price (2 Marks)
 - (ii) “Ceteris paribus” (2 Marks)
 - (iii) Inferior and giffen goods (2 Marks)
 - (iv) Substitutes and compliments (2 Marks)
 - (v) Elasticity (2 Marks)
- (b) State five assumptions of the law of diminishing marginal utility. (5 Marks)
- (c) State the law of demand and give five factors that influence demand of a commodity. (7 Marks)
- (d) State five advantages of specialization. (5 Marks)
- (e) List any three characteristics of a perfectly competitive market. (3 Marks)

QUESTION TWO – (15 MARKS)

- (a) Differentiate between economies and diseconomies of scale. (4 Marks)
- (b) Explain the concepts of increasing and decreasing returns to scale. (4 Marks)
- (c) Explain the various internal economies of scale. (7 Marks)

QUESTION THREE – (15 MARKS)

(a) You are given the two functions respectively as follows.

$$Y_1 = 3550 - 266P$$

$$Y_2 = 1526 + 240P$$

Required:

(i) Identify the demand and supply functions. (2 Marks)

(ii) Determine the equilibrium market price and quantity. (6 Marks)

(b) Explain the limitations of cardinal approach to measuring utility. (7 Marks)

QUESTION FOUR – (15 MARKS)

Discuss what causes “shifts” and “movements” in both the demand and supply curves.

(15 Marks)

QUESTION FIVE – (15 MARKS)

(a) Explain why the demand curve is always downward sloping. (3 Marks)

(b) Illustrate and explain the three stages associated with the law of variable proportions. (12 Marks)

QUESTION SIX – (15 MARKS)

(a) A monopoly firm is faced with the following demand functions $P = 13 - 0.5Q$. The marginal cost function for the firm is given by $3 + 4q$ and the total fixed cost is 4.

Determine;

(i) The profit maximizing output. (5 Marks)

(ii) The level of supernormal profit if any. (3 Marks)

(iii) The output level at breakeven point. (2 Marks)

(b) State any five factors that influence elasticity of supply. (5 Marks)