



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2010/2011

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR DIPLOMA IN BUSINESS ADMINISTRATION

DBA 0106: INTRODUCTION TO MICROECONOMICS

DATE: APRIL 2011

TIME: 1½ HOURS

INSTRUCTIONS: *Question one and any other two questions*

QUESTION ONE – (30 MARKS)

- (a) Distinguish the following terms
- (i) Scarcity and choice
 - (ii) Complementary and substitute goods
 - (iii) Giffen and Veblen goods
 - (iv) Monopoly and monopolistic competition (8 Marks)
- (b) (i) With the aid of a well labeled diagram, state the law of demand. (4 Marks)
(ii) Explain the exceptions to this law. (6 Marks)
- (c) State the ideal conditions for perfect competition in a market (4 Marks)
- (d) Differentiate between the following sets of terms as used in economics.
- (i) Normative and positive economics
 - (ii) Change in quantity demanded and change in demand
 - (iii) Marginal revenue and marginal cost. (6 Marks)
- (e) Differentiate between transfer earnings and economic rent. (2 Marks)

QUESTION TWO – (20 MARKS)

- (a) (i) Define elasticity (1 Mark)
(ii) Explain four main determinants of price elasticity of demand (8 Marks)
- (b) Distinguish between; arc elasticity of demand and point elasticity of demand. (1 Mark)
- (c) The demand of a commodity is 5 units when the price is Ksh1000 per unit. When the price per unit falls to Ksh600 the demand rises to 6 units. Compute and explain;

- (i) Point elasticity of demand at Ksh600
 - (ii) Arc elasticity of demand
- (10 Marks)

QUESTION THREE – (20 MARKS)

- (a) Using diagrams, illustrate and explain the effect of the following on equilibrium price of commodity X (given X is a normal good)
 - (i) Fall in price of X substitute
 - (ii) A rise in consumers' income
 - (iii) A simultaneous increase in input prices. (12 Marks)
- (b) With the help of well labeled diagrams, distinguish between price floors and price ceilings. (8 Marks)

QUESTION FOUR – (20 MARKS)

Outputs Q (units)	0	1	2	3	4	5	5	7	8
Total Cost (TC)	25	32	38	42	48	58	67	78	98
Total Variable cost (TVC)	20	27	33	37	43	53	62	73	93

- (a) Using the above data, determine;
 - (i) Total fixed cost
 - (ii) Average variable cost when output is 6 units
 - (iii) Marginal cost of the 3rd unit of output (12 Marks)
- (b) With the help of a well labeled diagram, explain the relationship between Average fixed cost, Average variable cost, Average total cost and Marginal cost curves. (8 Marks)

QUESTION FIVE – (20 MARKS)

- (a) Discuss how the price mechanism allocates resources in a free market system. (5 Marks)
- (b) More economies are opting for free market system as opposed to planned systems. Compare the two systems, describing their respective advantages and disadvantages. (15 Marks)