

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

# **UNIVERSITY EXAMINATIONS 2014/2015**

**FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AFIM/AMED/AERD**

**AER 2101: PRINCIPLES OF MICROECONOMICS**

**DATE: DECEMBER 2014 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER ALL QUESTIONS IN SECTION A AND ANY OTHER TWO IN SECTION B**

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**SECTION A - 60 MARKS**

**QUESTION ONE**

Differentiate the following concepts:-

1. Microeconomics and macroeconomics [2 marks]
2. Law of demand and law of supply [2 marks]
3. Marginal rate of substitution and marginal rate of technical substitution [2 marks]
4. Indifferent curve and an isoquant [2 marks]
5. Cardinal and ordinal theory [2 marks]

**QUESTION TWO**

1. Explain the basic assumptions under a perfect competitive market [5 marks]
2. Using a well labeled diagram, explain the utility maximization point of a consumer [5 marks]

**QUESTION THREE**

Explain the five factors that influence supply in the market [10 marks

**QUESTION FOUR**

1. Explain the three levels of price discrimination [6 marks]
2. Explain the short-run equilibrium of a firm under perfect competition when the firm is making losses. [4 marks]

**QUESTION FIVE**

1. Distinguish between monopoly and monopolistic competition [3 marks]
2. With the aid of a diagram, explain the consumer surplus and producer surplus under perfect competition. [7 marks]

**QUESTION SIX**

1. With the aid of a diagram, explain the difference between price ceiling and price floor. [4 marks]
2. Given the demand and supply for commodity Y as Q=5500-400p and 50p=Q+500. Required: Calculate the equilibrium price and quantity for commodity Y. [6 marks]

**SECTION B : 40 MARKS**

**QUESTION SEVEN**

1. Explain three types of returns to scale. [6 marks]
2. Explain three properties of consumer preferences. [6 marks]
3. A consumer has initial income of kshs. 1000 to spend on two commodities X and Y. The price of X is shs. 10 while the price of Y is shs. 50. Plot the consumers budget line and show the effect of an increase in the price of good X to shs. 50. [8 marks]

**QUESTION EIGHT**

1. Explain two conditions necessary for price discrimination to take place [4 marks]
2. The price of commodity Y produce by a monopoly is given by ; P=80-5Q and the total cost of production C=40+10Q

Required:

1. Calculate the equilibrium price and quantity for commodity Y that will maximize the firm’s profits. [6 marks]
2. Calculate the maximum profit/loss attainable [3 marks]
3. Calculate the maximum profit/loss if the monopoly was to behave like a perfectly competitive firm. [ 7 marks]

**QUESTION NINE**

The main objective of the government in the market economy is to correct market failure. In pursuit of this, describe the role played by the Kenyan government in the market economy. [20 marks]