

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2014/2015**

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURE, AGRICULTURE, EDUCATION AND EXTENTION, HORTICULTURE AND ANIMAL HEALTH AND PRODUCTION

**AAA 3111: INTRODUCTION TO ECONOMICS**

**DATE: JULY 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. You are given two functions, the demand and supply function respectively as follows:

Demand function 

Supply function 

**Required**

Determine equilibrium market price and quantities (6 Marks)

1. Explain the following terms as used in economics
2. Income and substitution effects (2 Marks)
3. “Shift” and “movement” in the supply curves (2 Marks)
4. Isocost and isoquant (2 Marks)
5. State five assumptions of the law of diminishing marginal utility (5 Marks)
6. State the law of demand and give five factors that influence demand of a commodity

(6 Marks)

1. Distinguish between price elasticity of demand and income elasticity of demand (7 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain the advantages of specialization (8 Marks)
2. Define elasticity of supply and explain five factors influencing elasticity of supply

(12 Marks)

**QUESTION THREE (20 MARKS)**

1. Explain any three limitations of cardinal approach to measuring utility (6 Marks)
2. Explain any three features of monopoly power (6 Marks)
3. State two advantages of economies of scale to a firm (2 Marks)
4. Explain the concept of increasing, constant and decreasing returns to scale (6 Marks)

**QUESTION FOUR (20 MARKS)**

1. Using diagrams, explain how a perfectly competitive firm attains its equilibrium in the short-run (12 Marks)
2. Explain factors that determine the price of a factor of production (8 Marks)