



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY

HOMA-BAY CAMPUS

AEC 101: INTRODUCTION TO MICROECONOMICS

Date: 24th June, 2017

Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.
- Question ONE carries 25 marks and the rest 15 marks each.
- Marks will be awarded for being neat, clear and use of relevant illustrations

QUESTION ONE

- (a) Explain the basic economic problems of any society and how they are solved in mixed and socialistic economies. (10marks)

(b) Using diagram differentiate between the following:

- (i) Indifference and Isoquant curves (4marks)
(ii) Budget and Isocost Lines (4marks)
(c) Given a demand function of a firm as: $q = 1000 - 20p$ and that $q = 200$ while $p = 160$. Calculate and interpret point elasticity of demand (7marks)

QUESTION TWO

- (a) Discuss determinants of supply elasticity and explain problems experienced by suppliers (8marks)
(b) Distinguish between implicit and explicit costs of production and geometrically derive average and marginal costs of production (7marks)

QUESTION THREE

Suppose that you are given a firm's demand function as

$$Q = 4000 - 40P$$

And firm's cost function is given as:

$$TC = 0.05Q^2 + 8,000$$

- (i) Find the firm's total revenue (TR) and her marginal revenue (MR) (2marks)
(ii) Calculate the firm's marginal costs (MC) (2marks)
(iii) Calculate the firm's average costs (2marks)
(iv) Calculate the firm's profit maximizing output and price levels (Q^* and P^*) (5marks)
(v) Calculate the firm's maximum profit (Π) (2marks)
(vi) Show that this is the true maximum profit by using the second order conditions as a test (2marks)

QUESTION FOUR

- (a) Using diagrams differentiate between producer equilibrium and consumer equilibrium (5marks)
(b) Explain the stages of production of a firm and advise on the optimal stage of a firm's operation. Illustrate with diagrams (10marks)

QUESTION FIVE

- (a) Discuss the determinants of demand for a good or service
(10marks)
- (b) Discuss the importance of price and income elasticity to a producer and government
(5marks)

QUESTION SIX

- (a) Explain the features of perfectly competitive market and profit maximization conditions
(10marks)
- (b) Differentiate between economies of scope and economies of scale with examples
(5marks)