

KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2018 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF ACADEMIC ARTS

ECON 110: INTRODUCTION TO MICROECONOMICS

DAY: Wednesday

DATE: 14/04/2018

TIME: 2.00-4.00 PM

STREAM: Y1S1

INSTRUCTIONS:

1. Do not write anything on this paper.
2. Answer question one and any other two questions

1.a) Distinguish between the following terms:

- i. Microeconomics and macroeconomics (3 marks)
- ii. Price floor and price ceiling (3 marks)
- iii. Engel curve and demand curve (3 marks)
- iv. Average Revenue and Marginal Revenue (3 marks)
- v. Short Run and Long Run (3 marks)
- vi. Change in demand and change in quantity demanded (3 marks)

b) i). Outline the assumptions of cardinal utility Theory (4 marks)

ii). Using a diagram, explain how consumer equilibrium is attained by an individual (assume one good) (5 marks).

iii) Identify the weaknesses of the theory in (i) above (3 marks)

2.a) i) Distinguish between a normal good and an inferior good (3 marks).

ii) state the law of demand and explain the factors which influence demand for a good or service (7 marks).

b) The following schedule shows individual consumption of two goods, X and Y

PX	PY
QX	QY
2	1
20	10
4	2
15	8
6	3
10	6
8	4

5	4
10	5
0	2

i) calculate gross price elasticity of demand when price of X is 4 ($P_X=4$).

ii) interpret the results in (i) above (1 marks)

c) identify four uses of elasticity Theory in the economy (4 marks)

3.a) i) State the law of Diminishing marginal returns (2 marks)

ii) distinguish between average product of labour and marginal product of labour (3 marks).

iii) using a well labeled diagram, show the relationship between average product, marginal product and total product of a firm in the short run (5 marks).

b) A firm's short run information is given below:

average fixed cost=40

average variable cost=50

i) calculate average cost, total fixed cost, total variable cost and total cost of production assuming $Q=5$, where Q =output (10 marks).

4. a) Distinguish between the following concepts:

i) isoquant and isocostline (3 marks)

ii) indifference curve and budget line (3 marks)

iii) economies and diseconomies (3 marks)

b). identify the features of a perfectly competitive market structure (2 marks).

c) using diagrams, explain the three possibilities of a firm at equilibrium in the short run (assume perfect competition) (9 marks).

