



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2018/2019 ACADEMIC YEAR  
SECOND YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS  
COMMON COURSE**

**COURSE CODE: ECO 1103**

**COURSE TITLE: INTRODUCTION TO  
MICROECONOMICS**

**DATE: 3<sup>RD</sup> DECEMBER 2018**

**TIME: 11.00AM – 1.00 P.M**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of 4 printed pages. Please turn over.*

## **QUESTION ONE**

- a) Clearly distinguish the following pairs of economic concepts
- i. Positive and Normative economic analysis **(4 marks)**
  - ii. Microeconomics and Macroeconomics **(4 marks)**
  - iii. Market economic system and Command economic system **(4 marks)**
- b) You are given the following economic function
- $$Q_1 = 36 - \frac{1}{3}P;$$
- $$Q_2 = -9 + \frac{1}{2}P$$
- where P is the market price for a particular commodity.
- i. Identify with reasons the demand and supply functions **(4 marks)**
  - ii. Explain the negative intercept of the second function **(4 marks)**
- c) Explain five sources of monopoly power to a firm **(5 marks)**

## **QUESTION TWO**

- a) Using the ordinalist approach, explain the consumer equilibrium and show how the demand curve for a normal good is derived. **(7 marks)**
- b) Determine the equilibrium quantities of commodities x and z for a consumer whose total utility (U) and other relevant variables are given below;

$$U = 20x - 4z^2 + 40z - x^2$$

$$\text{Income level } Y = \text{Ksh.48}$$

$$\text{Price of } x(p_x) = \text{ksh.2}$$

Price of  $z(p_z) = ksh.4$

Show all your workings

**(8 marks)**

### **QUESTION THREE**

Use the table to attempt the following questions

Capital	Labour	TP <sub>L</sub>	AP <sub>L</sub>	MP <sub>L</sub>
1unit	0	0		
1unit	1	5		
1unit	2	16		
1unit	3	36		
1unit	4	68		
1unit	5	95		
1unit	6	114		
1 unit	7	119		
1unit	8	120		
1unit	9	117		
1 unit	10	100		

a) Fill average product (AP) and marginal product (MP) columns **(8 marks)**

b) Demarcate and explain the three stages of production **(7 marks)**

### **QUESTION FOUR**

a) Draw a graphical presentation of a short run equilibrium under the monopoly market structure and show how the firm makes supernormal profits **(7 marks)**

b) Using a well labeled diagram describe the relationship between average total cost (ATC), average variable cost (AVC) and marginal cost (MC) **(8 marks)**

### **QUESTION FIVE**

a) Explain the main determinants of price elasticity of demand **(8 marks)**

b) Given

Demand function:  $Q_d = 3550 - 266p$

Supply function:  $Q_s = 1526 + 240p$

- i. Determine the equilibrium market price and quantity **(3 marks)**
- ii. Using the demand for a giffen good, illustrate an unstable equilibrium **(4 marks)**

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