



(Knowledge for Development)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS**

2021/2022 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

MAIN EXAM

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ECO 111

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

DATE: 19TH MAY, 2022

TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE (COMPULSORY)

a) Define the following terms giving examples where necessary:

- i) Substitute and complementary goods (2marks)
- ii) Inferior and giffen goods (2marks)
- iii) Scarcity and choice (1mark)
- iv) Opportunity Cost (1mark)

b) Define the term cross price elasticity of demand and explain its value for substitutes and complementary commodities (4marks)

c) In what ways does a perfect market differ from a monopoly, oligopoly and monopolistic Competition? (4marks)

d) Division of labour and specialization bring their benefits but they also have their limitations.

Define and discuss (10marks)

e) Explain what is meant by elasticity of supply and state the factors that determine the supply of a good in the market. (6marks)

(Total 30marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO

- a) Explain the term price control. (4 marks)
- b) Using the indifference curve analysis demonstrate how a household's equilibrium point is attained. (6marks)
- c) By focusing on an inferior good, use the indifference curve analysis to demonstrate and explain the income and substitution effects. (10 marks)

(Total 20marks)

QUESTION THREE

- a) Distinguish between price floors and price ceilings. (4 marks)
- b) Explain advantages of economies of scale to the firm. (6 marks)
- c) Explain how the concept of elasticity guides decisions in the following situations:
 - i) Government's tax policy on household consumption. (2 marks)
 - ii) Devaluation policy to encourage exports and discourage imports. (2 marks)
 - iii) Price discrimination by monopolist. (2 marks)
- c) State the law of diminishing returns as applied to production functions. (4 marks)

(Total 20marks)

QUESTION FOUR

a) The table below represents a production function for a commodity x where capital is fixed and labour is variable.

Quantity of labour	Total Physical product (tons of x)
0	0
1	15
2	34
3	48
4	60
6	62

Using the data in the above table, plot the marginal product for labour. (8 marks)

b) Use the data in the table below to complete income elasticity through the arc elasticity method

Quantity	Income (Shs.)	Price (Shs.)
100	5,000	16
120	6,000	16

(4marks)

c) Discuss the necessary and sufficient conditions for profit maximization by a firm. Support your answer with appropriate illustrations. (8marks)

(Total 20marks)

QUESTION FIVE

a) Outline the various factors which lead to monopoly power. Compare the advantages and disadvantages which consumers may derive from production by a monopolist. (10 marks)

b) Write brief notes on the following:

(i) Scarcity and choice.

(2 marks)

(ii) Diminishing marginal utility.

(2 marks)

(iii) Price elasticity of demand.

(2 marks)

(iv) Income elasticity of demand.

(2 marks)

(v) Substitution and income effects of a price change.

(2 marks)

(Total 20marks)