



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ARTS (ECONOMICS)

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

EET 100: MICROECONOMIC THEORY I

DATE: 3/12/2019

TIME: 11.00-1.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

- a) Differentiate the following terms:
- i. Cross elasticity of demand and Income elasticity of demand (4 marks)
 - ii. Indifference curve and Isoquant. (4 marks)
 - iii. Veblen good and Giffen good. (4 marks)
 - iv. Price ceiling and price floor. (4 marks)
- b) Outline the relationship between short-run and long-run costs. (5 marks)
- c) Distinguish between producer surplus and consumer surplus. (5 marks)
- d) Explain the assumptions of the ordinalist approach to utility. (8 marks)

QUESTION TWO (20 MARKS)

The table below represents the short run production costs data for a firm.

Output (Units)	0	10	20	30	40	50	60	70	80
Total Cost (Units)	50	150	240	300	360	500	720	1050	1400

- a) Derive the :
- i. Average Total Cost. (2 marks)
 - ii. Average Variable cost. (2 marks)
 - iii. Marginal Cost. (2 marks)
 - iv. Diagrammatically show how they are related. (4 marks)
- b) Draw the :
- i. Total Cost Curve. (3 marks)
 - ii. Marginal Cost curve. (2 marks)
- c) Differentiate with relevant examples the concepts of normative economics and positive economics. (5 marks)

QUESTION THREE (20 MARKS)

- a) Expound with relevant examples the sources of Monopoly power. (8 marks)
- b) Explain what is meant by Equilibrium. (1 mark)
- c) Elaborate on the three types of equilibrium. (6 marks)
- d) Explain five factors that influence the supply of a commodity. (5 marks)

QUESTION FOUR (20 MARKS)

- a) With the help of diagrams explain the three stages of production and explain why the firm will operate in the second stage. (8 marks)
- b) Define the concept of demand and explain the factors that affect a commodity's demand. (6 marks)
- c) Describe briefly the practical importance of the concept of elasticity to:
 - i. A firm, (2 marks)
 - ii. The government. (4 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the concept of Elasticity of supply and explain the factors that determine it. (10 marks)
- d) Differentiate between Macroeconomics and Microeconomics. (4 marks)
- e) Using an illustration explain long run equilibrium of a perfectly competitive firm (6 marks)