



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 SCIENCE (ACTUARIAL SCIENCE)

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF EDUCATION (ARTS)

BACHELOR OF ECONOMICS

BACHELOR OF COMMERCE

EET 100: MICROECONOMIC THEORY I

DATE: 3/12/2019

TIME: 11.00-1.00 PM

INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions**
- (ii) Show your working clearly**

QUESTION ONE (30 MARKS)

- a) Briefly distinguish between the following economic terms;
 - i. Microeconomic and macroeconomics
 - ii. Scarcity and choice
 - iii. Consumer surplus and producer surplus
 - iv. Monopolistic market and perfectly competitive (12 marks)
- b) The prices in the market dictates the shift of a demand curve either to the left or right indicating decrease or increase of quantity demanded. Do you agree with the statement? Justify your answer. (5 marks)
- c) What is the justification for studying economics for a student in the university taking up a non-business programme? (5 marks)
- d) With the aid of a diagram discuss the short run equilibrium for a monopolist market structure (8 marks)

QUESTION TWO (20 MARKS)

- a) The consumption theory discusses two approaches in explaining consumer satisfaction. Discuss. (10 marks)
- b) With the aid of a diagram discuss the income and substitution effect for normal good and inferior good. (10 marks)

QUESTION THREE (20 MARKS)

- a) Discuss the economic meaning of costs and profit (4 marks)
- b) Distinguish between the following
- i short run and long run production period
 - ii fixed and variable factors of production (6 marks)
- c) Explain the shape of the production function and Law of Diminishing marginal Returns (6 marks)
- d) Using the following demand and supply functions for a commodity x , compute the equilibrium price and quantity. (4 marks)

$$Q_d = 100 - 2p; \quad Q_s = 40 + 4p$$

QUESTION FOUR (20 MARKS)

- a) Distinguish between own price elasticity and cross elasticity of demand (4 marks)
- b) Briefly explain the factors that affect own price elasticity of demand for a commodity (8 marks)
- c) Briefly explain the application of the concept of indifference curve analysis. (8 marks)

QUESTION FIVE (20 MARKS)

Consider the production data below where labour is the variable factor of production:

Labour (hrs)	Total Physical Products
1	15
2	35
3	60
4	90
5	120
6	144
7	158
8	160
9	160
10	158

- a) Find the average physical products and marginal physical products at each level of labour.
(8 marks)
- b) Using the data, illustrate and explain the three stages of production in the short-run
(12 marks)