



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

**EET 100: MICROECONOMIC THEORY I**

DATE: 26/3/2021

TIME: 2.00-4.00 PM

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## INSTRUCTIONS:

Answer question one and nay other two question

### 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)