



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EET 102: PRINCIPLES OF ECONOMICS

DATE: 11/12/2020

TIME: 2:00 – 4:00 PM

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## INSTRUCTIONS:

Attempt question **ONE** and any other **TWO** questions

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Write short notes on the following
- Scarcity and choice
  - Opportunity cost
  - The production possibility frontier
  - Expansion path
  - Scale of preference (10 marks)
- b) Given the following function;
- $$Q_d = 3550 - 266P$$
- $$Q_s = 1576 + 240P$$
- Determine the equilibrium price and quantity (6 marks)
- c) Briefly explain four sources of monopoly power in an economy. (6 marks)
- d) Distinguish between a free market system and a command market system (8 marks)

**QUESTION TWO (20 MARKS)**

- a) Briefly distinguish own price elasticity and cross elasticity of demand (4 marks)
- b) Explain the determinants of elasticity of demand in economic decision making (10 marks)
- c) Discuss three application of price theory in an economy (6 marks)

**QUESTION THREE (20 MARKS)**

- a) Distinguish between the fixed, variable and total cost for a firm. Use relevant curves to demonstrate your answer (9 marks)
- b) Given the following items calculate the TR, AR and MR. (11 marks)

Q	P	TR	AR	MR
20	120			
40	200			
60	300			
80	360			

**QUESTION FOUR (20 MARKS)**

- a) Briefly distinguish between cardinal and ordinal utility (8 marks)
- b) With the aid of a diagram explain the concept of consumer equilibrium (6 marks)
- c) Briefly explain the application of the concept of indifference curve analysis. (6 marks)

**QUESTION FIVE (20 MARKS)**

- a) Briefly explain the assumptions of a pure competition market (8 marks)
- b) With the aid of a diagram discuss the short run equilibrium for a monopolist market structure (8 marks)
- c) Briefly explain three sources of external economies of scale (4 marks)