



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE, FIRST YEAR, FIRST SEMESTER, BACHELOR OF
BUSINES INFORMATION TECHNOLOGY. FIRST YEAR, FIRST SEMESTER,
BACHELOR OF SCIENCE IN ACTURIAL SCIENCE AND FIRST YEAR, SECOND
SEMESTER, BACHELOR OF SCIENCE IN STATISTICS

HBC 2107: INTRODUCTION TO MICRO-ECONOMICS

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* Questions

QUESTION ONE (30 MARKS)

- a. Define a perfect competitive market and explain its characteristics. (7 Marks)
- b. Explain the properties of indifference curve. (4 Marks)
- c. Define the following terms as used in economics:
 - i. Scarcity and choice (2 Marks)
 - ii. The law of return to scale (2 Marks)
 - iii. Opportunity cost (2 Marks)
 - iv. Production (2 Marks)
- d. Using demand and supply functions of a commodity, compute the equilibrium price and quantity.
 $Q_d = 200 - 4p$
 $Q_s = 80 + 8p$ (6 Marks)
- e. Explain any five factors that influence the demand of a good or service. (5 Marks)

QUESTION TWO (20 MARKS)

- a. Briefly describe the three stages of production. (12 Marks)
- b. State the law of diminishing returns. (2 Marks)
 - (i) Complete the table below (4 Marks)

Quantity of x consumed per week	Total utility units per week	marginal Utility (units)
0	0	<u>a</u>

1	20	<u>b</u>
2	50	<u>c</u>
3	60	<u>d</u>
4	<u>e</u>	2
5	<u>f</u>	-2
6	54	<u>g</u>
7	46	<u>h</u>

c. Differentiate between inferior goods and giffen goods. (2 Marks)

QUESTION THREE (20 MARKS)

- a. Differentiate between arc elasticity and point elasticity of demand. (2 Marks)
- b. If the price of coffee rises from ksh.45 per 250 grams pack to ksh.55 per 250 grams pack and as a result the consumer's demand for tea increases from 600 packs to 800 packs of 250 grams.

Required:

Calculate the cross elasticity of demand. (8 Marks)

- c. With the aid of a diagram state the law of supply and explain the factors that influence supply of a good or service. (10 Marks)

QUESTION FOUR (20 MARKS)

- a. Define elasticity and outline its importance in economics. (5 Marks)
- b. Discuss the characteristics that would indicated that the market for a good or service is in disequilibrium. (5 Marks)
- c. with the aid of a diagram explain the economic effects of:
 - i. Maximum price legislation (5 Marks)
 - ii. Minimum price legislation (5 Marks)

QUESTION FIVE (20 MARKS)

- a. Differentiate between short run period and long-run period of a firm. (6 Marks)
- b. A firm has complete monopoly over the production of lighting bulbs. The following information is given.

$$\text{Total revenue TR} = 1000 - 10 q^2$$

$$\text{MC} = 100 + 10 q$$

Where q equals output of bulbs per unit of time.

Required:

- i. Determine the number of bulbs that would be sold and the price charged if the firm was to set its price as a monopoly. (6 Marks)
- ii. Briefly discuss the factors that give rise to monopoly. (8 Marks)

