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MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF COMMERCE**

**COURSE CODE: ECO 1103**

**COURSE TITLE: INTRODUCTION TO MICRO**

**ECONOMICS**

**DATE: 24TH APRIL 2017 TIME: 2.30PM-4.30PM**

**INSTRUCTIONS TO CANDIDATES**

* ***Answer question ONE (compulsory) and any other THREE***
* ***Question one carries 25 marks***
* ***All other questions carry 15 marks***

*This paper consists of 3 printed pages. Please turn over*

**QUESTION ONE**

a) Using relevant examples, explain the following terms as used in economics;-

1. Scarcity and choice **(2 marks)**
2. Opportunity cost **(2marks)**
3. Production possibility frontier **(2marks)**
4. Diminishing marginal returns **(2 marks)**
5. Diseconomies of scale **(2 marks)**

b) State the law of supply and illustrate it with a diagram **(3marks)**

c) In a market, mangoes and oranges can be consumed as alternatives, using a well labeled diagram explain the effect of changes in prices of oranges to the demand of mangoes. **(6marks)**

d) Explain five sources of monopoly power **(5 marks)**

**QUESTION TWO**

a) Distinguish, with examples, between fixed and variable costs. **(5 marks)**

b) Analyze, with the help of an appropriate diagram, what would happen to the demand for petrol if:

i.There was a rise in the price of cars. **(5 marks)**

ii.There was an increase in consumer income. **(5 marks)**

**QUESTION THREE**

1. Outline any five determinants of supply **(5 marks)**
2. Define perfect competitive firm and, with the aid of a diagram, explain the short-run profit maximizing point of a perfect competitive firm making supernormal profit. **(10 marks)**

**QUESTION FOUR**

1. Define both price elasticity of demand and income elasticity of demand.

**(4 marks)**

1. State and explain the main factors that determine the price elasticity of demand. **(6 marks)**
2. Explain briefly why a business manufacturer of goods will find it is important to know the price and income elasticity of demand for his products. **(5 marks)**

**QUESTION FIVE**

1. Discuss the barriers to occupational mobility of labor **(7 marks)**
2. Explain the characteristics of free market economy **(8 marks)**