# MASENO UNIVERSITY

# UNIVERSITY EXAMINATIONS 2015/2016

## FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

## HOMA-BAY CAMPUS

## AEC 101: INTRODUCTION TO MICRO-ECONOMICS

Date:5ᵗʰ becember, 2015                     Time: 11.00 - 1.00 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks, the rest 20 marks each.
- Marks will be awarded for being neat, clear and use of relevant illustrations.

## QUESTION ONE

(a) What are the causes of monopoly? Is monopoly desirable?

**(10marks)**

(b) With examples, differentiate between positive and normative economics **(5marks)**

(c) Differentiate between movements along demand curve and shift of demand curve and highlight the determinants of each case. Illustrate with diagrams **(10marks)**

(d) Explain the goods that exhibit positive and negative elasticities of demand **(5marks)**


## QUESTION TWO

(a) State the difference between explicit and implicit costs of production and geometrically derive average and marginal products **(8marks)**

(b) Describe the features of a perfectly competitive market and the demand curves of firms in this market and their profit maximization conditions **(6marks)**

(c) Differentiate between budget and isocost lines with the aid of diagrams **(6marks)**


## QUESTION THREE

Given a demand function for a monopoly firm as $p=20-q$ and cost function as $C=q^2 +8q+2$

(a) What output level maximizes total profit and what are the corresponding values of price, profit and total revenue? **(9marks)**

(b) What output level maximizes sales in value and what are the corresponding values of price, profit and total revenue? **(6marks)**

(c) Prove that the profit of the firm is maximum **(5marks)**


## QUESTION FOUR

(a) Given a demand function of the form:

$Q=1000-20p$

Calculate the price elasticity of demand when

$P=100$ and $q=800$ **(5marks)**

(b) Explain the determinants of elasticity of supply of a good

**(10marks)**

(c) Using a diagram differentiate between producer surplus and consumer surplus **(5marks)**

## QUESTION FIVE

(a) In the short run, it is argued that production occurs only in the stage II. What is this stage II and why it is so important in production. Illustrate with a diagram. **(8marks)**

(b) Indifferent curve do not intersect. Explain using a diagram and highlight its properties **(6marks)**

(c) What are the causes of monopoly market? **(6marks)**