**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2014/2015**

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE

**BEC 3102: PRINCIPLES OF MICROECONOMICS**

 **DATE: OCTOBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Discuss the relationship between scarcity, choice and opportunity cost (6 Marks)
2. Distinguish between point elasticity and arc elasticity of demand (4 Marks)
3. The utility (U) obtained by consuming food (F) and shelter (S) is given by utility function U-FS. Draw the indifference curves associated with utility levels 12 and 24 (4 Marks)
4. From the pragmatic point of view neither free market system nor planned market systems exist. Explain this statement in the light of economic systems. (8 Marks)
5. Given that the total cost function of an hypothecal firm is:

TC=Q3-PQ2+68Q+4, determine:

1. Fixed cost (1 Mark)
2. Total cost if Q=10 units (2 Marks)
3. Average total cost (2 Marks)
4. Marginal cost (2 Marks)

**QUESTION TWO (20 MARKS)**

1. With the aid of a diagram, explain the relationship between the average total cost, average variable cost and the marginal cost in the short run (10 Marks)
2. Explain five determinants of elasticity of supply (10 Marks)

**QUESTION THREE (20 MARKS)**

1. State and explain five assumptions that underlie the cardinal approach of consumer behaviour (10 Marks)
2. With the aid of a diagram, explain the short-run equilibrium of a firm under perfect competition (10 Marks)

**QUESTION FOUR (20 MARKS)**

1. Assess five factors that affect the supply of agricultural products to the market over a given period of time. (10 Marks)
2. Monopolistic competition is mainly characterized by product differentiation. Explain five advantages that accrue to both the consumer and the firm as a refute of product differentiation (10 Marks)

**QUESTION FIVE (20 MARKS)**

1. Explain five possible factors which are likely to cause the demand curve to shift from D0 to D1 as shown below (10 Marks)

 D1

 D0

 P

 D1

 D0

 Q

1. State and explain five internal technical economies of scale that may accrue to a firm as it expands to an optimum size (10 Marks)