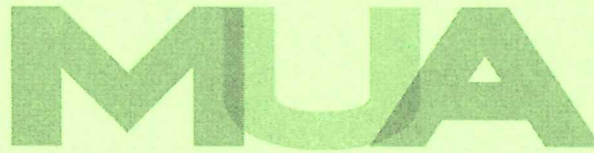


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE/ BACHELOR OF
EDUCATION ARTS

BCM 116/ ECN 182 : MICRO ECONOMICS

DATE: 8TH AUGUST 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Asashi Company has been experiencing a low performance and requested its accountant to produce data on how their output against their cost had been performing in one month. The data below represent Asashi's one month performance.

Capital (units)	Labour (units)	Total Output
5	0	0
5	1	5
5	2	16
5	3	30
5	4	56
5	5	85
5	6	114
5	7	140
5	8	160
5	9	171
5	10	180
5	11	175

- i. Determine the marginal product and average product schedules. **(6 Marks)**
- ii. Graphically illustrate the three stages of production and explain each stage. **(10 Marks)**
- iii. Using the graph you have drawn in (ii) above explain the concept of the law of variable proportions. **(4 Marks)**
- iv. State five assumptions of the law of equi-marginal utility **(5 Marks)**

QUESTION TWO

- i. Distinguish clearly between the following terms as used in economics. (4 marks)
 - a. Macro-economics and Micro economics
 - b. Normative and positive methods of economics.
- ii. The price of 13 kgs cooking gas increased from Kshs. 3000 to Kshs. 4500 at the beginning of the year 2020. The quantity demanded for this product decreased from 500 units to 350 units at Ola Petrol Station. Calculate the price elasticity of demand and interpret your answer. (4 Marks)
- iii. Highlight four sources of monopoly power. (4 Marks)
- iv. Explain three characteristics of indifference curves. (3 Marks)

QUESTION THREE

- i. Assume the demand for face masks is $Q_d = 240 - P$ and the supply of face masks is $Q_s = 7P$.
 - a) Determine the equilibrium income (2 Marks)
 - b) Evaluate the price elasticity of demand at $P = \$25$ (2 Marks)
- ii. Scarcity of economic resources is considered the root cause of many economic problems, assess why. (2 Marks)
- iii. Suppose that the demand for lamb is given as $Q_d = 300 - 6P$.
 Compute the price elasticity of demand if the price of lamb is \$15 per pound?
 (2 Marks)
- iv. Differentiate between an inferior good and a giffen good in relation to demand. (2 Marks)
- v. Assume a consumer spends all her income in the purchase of two goods – Good X and Good Y whose prices are Ksh. 30 and Ksh. 20 per unit respectively. The consumer's monthly income is Ksh 3,000. She is satisfied with various combinations of X and Y. Using a clearly labeled diagram show the relevant budget line and indifference curve indicating the equilibrium position of the consumer. (5 Marks)

QUESTION FOUR

- i. Explain Six (6) features of a free enterprise market system. **(6 Marks)**
- ii. Propose the three basic questions that economists generally aim to address. **(3 Marks)**
- iii. Propose five assumptions of the law of variable proportions **(6 Marks)**

QUESTION FIVE

- i. Perfect competition type of market structure is based on several assumptions, explain two assumptions. **(1 Mark)**
- ii. Propose five factors that would affect the price elasticity of demand for any product. **(10 Marks)**
- iii. Name and explain at least six advantages of a command economic system **(4 Marks)**

QUESTION SIX

Illustrate and explain how the stipulated changes in the following supply shifters change the equilibrium price and quantities of personal computers. Assume all other shifters remain constant except the one under consideration:

- a. A decrease in the price of printers - an alternative product that can be produced. **(3 Marks)**
- b. A decrease in the price of silicon chips. **(3 Marks)**
- c. Producers expect prices to be lower next year. **(3 Marks)**
- d. Advances are made in electronics technology relating to production of computers. **(3 Marks)**
- e. There is a decrease in the number of manufacturers of this product. **(3 Marks)**