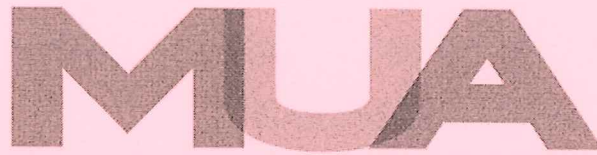


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 116: MICRO ECONOMICS

DATE: 26TH MARCH 2025

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

Read the Case Study below carefully and answer the questions that follow:

How big is the frozen food industry?

According to a report by Polaris, the global frozen food market was valued at USD 252.19 billion in 2021 and is expected to reach USD 389.90 billion by 2030.

While currently, Europe is the largest market for frozen food, Polaris predicts that the Asia Pacific will see the highest growth in the coming years due to the increasing demand from countries such as China, India, and Japan.

Out of the above-listed frozen food products, the frozen fish, meat, and seafood category currently hold the largest market share due to the growing popularity of these products among consumers.

However, the frozen fruit and vegetables segment is the largest and fastest-growing category due to the increasing health consciousness of consumers and the increasing availability of these products. The summary of the above data is that the frozen foods market size is currently large and only expected to grow in the coming years. This provides a great opportunity for those in the industry to capitalize on this growth and continue to innovate in order to meet consumer demand.

Two of the main drivers of this market growth are; busy, fast-paced lifestyles and increased disposable income. A widely believed myth is that any food stored for longer periods must be of lower quality.

While developing countries such as Latin America, South America, South Africa, and others present an untapped potential for the frozen food industry, several challenges must be addressed to capitalize on this opportunity fully. These challenges include: lack of infrastructure, High costs and Food safety concerns

Required:

- a) From the above case study identify and explain three factors affecting demand of frozen foods **(6 Marks)**
- b) Ceteris paribus graph and explain the effects of the factors you have identified above on the demand curve. **(4 Marks)**

- c) From the above case study identify and explain three factors affecting supply of frozen foods in developing countries **(6 Marks)**
- d) Graph and explain the effects of favorable changes of the factors you have identified above on the supply curve. **(4 Marks)**
- e) "The summary of the above data is that the frozen foods market size is currently large and only expected to grow in the coming years. This provides a great opportunity for those in the industry to capitalize on this growth and continue to innovate in order to meet consumer demand." Graph and explain how technological innovation can help to achieve equilibrium in the market of frozen foods. **(5 Marks)**

QUESTION TWO

- a) The price of 13 kgs cooking gas increased from Kshs. 2500 to Kshs. 3000 at the beginning of the year 2014. The quantity demanded for this product decreased from 300 units to 200 units at Kenol Petrol Station. Calculate the price elasticity of demand. **(2 Marks)**
- b) Using the stages of production in the short run, illustrate and explain why it does not make any economic sense to produce in stage I or III. **(4 Marks)**
- c) Explain and **graph** the concept of a shift and movement of the supply curve using any factor that affects supply of a product. **(6 Marks)**
- d) State three properties of indifference curves. **(3 Marks)**

QUESTION THREE

- a) Propose the relationship between variable cost and marginal cost. **(2 Marks)**
- b) Explain three ways in which the government can influence demand for a commodity. **(3 marks)**
- c) Name and explain at least four advantages of a command economic system. **(4 Marks)**

- d) Differentiate the following terms, marginal product, marginal cost and marginal utility. (6 Marks)

QUESTION FOUR

- a) State four defining characteristics of an oligopoly market structure. (2 Marks)
- b) Perfect competition type of market structure is based on several assumptions. Explain at least FIVE of these assumptions. (6 Marks)

- c) Assume the market demand and supply curves of gasoline are:

$$Q_d = 180 - 30P_b$$

$$Q_s = 70 + 25P_s$$

- i. Determine the equilibrium price. (3 Marks)
- ii. At the equilibrium price obtained above compute the price elasticity of demand and the price elasticity of supply and explain your answers. (6 Marks)

QUESTION FIVE

- a) Distinguish the below terms
- i. Microeconomics (1.5 Marks)
- ii. Macroeconomics (1.5 Marks)
- b) The following function represents the total cost function of a firm in the short run period

$$TC = Q^3 + 4Q + 5$$

Determine

- i. Marginal cost function (2 Marks)
- ii. The average fixed cost when $Q = 3$ units (2 Marks)
- iii. The average total cost when $Q = 10$ units (2 Marks)
- c) Identify and explain which of the two functions below represents a demand curve, supply curve and why? (2 marks)

$$Q_a = 3P^2 - 4 \dots \dots \dots (1)$$

$$Q_b = 24 - P^2 \dots \dots \dots (2)$$

d) At what values of price and quantity is the market above (c) in equilibrium?

(4 Marks)

QUESTION SIX

a) Propose and expound two benefits and two drawbacks of price controls in a country. **(8 Marks)**

b) New mums in Kenya have a good variety of baby diapers to choose from. Propose the market structure of baby diapers in Kenya and explain your answer. **(4 Marks)**

c) In downtown Hamilton, a hotel exists with more than 500 identical rooms. It can accommodate 1,000 people at the same time. Last year, each hotel room price was \$150 per night, and on average, 350 rooms were rented out per day. This year, the hotel saw a drop in revenue when the manager made a price change. Now, each room is rented out at \$99 per night. As a result, 378 rooms are being rented each day. Calculate the price elasticity of demand and explain it. **(3 Marks)**

