

The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

**DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP /
BACHELOR OF COMMERCE**

**BML 200 / BCM 215: MICRO ECONOMICS/ INTERMEDIATE MICRO
ECONOMICS**

DATE: 3RD APRIL 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**:

OLIVE OIL PRICES

It seems there is almost nothing bad about olive oil. A high content of mono-saturated fats makes olive oil among the most heart-healthy of all cooking oils. It is great for your skin, too. Wrangler has introduced a line of olive-oil infused jeans designed to moisturize the wearer's legs. You can also shave with olive oil. In fact, the only bad thing about olive oil is that the prices are going up, and fast. In the recent past prices have risen up to 75 percent since mid-2012. There is little doubt about what is happening on the supply side of the market. The weather in Spain, the world's largest producer, was unusually bad in the year 2012. In the spring, an unexpected frost damaged the trees just as they were blossoming. Summer brought a prolonged drought. By December, which should be the height of the 2012/13 harvest, the Spanish crop was coming in at just 44 percent of the year before.

The harvest has been better elsewhere, but Spain so dominates the world market that no one else can really make up the loss. Tunisia and California are trying but none of them is going to go far in replacing the hundreds of thousands of tons of lost Spanish production. Greeks are still the largest per-capita consumers, going through an astonishing two litres a month for every man, woman, and child. Italian and Spanish consumers each lap up about half of that. Lately, though, Southern Europeans are tightening their belts, and warming up for the olive oil but their consumption is still down.

Meanwhile, health consciousness and the growing popularity of European foods are boosting consumption elsewhere. U.S. consumers are set to increase their olive oil purchases by 9 percent this year. Despite the best efforts of California producers to supply the domestic market, that will mean a big increase in imports. China is becoming a factor in the market too. China will soon become the world's biggest consumer. The popularity of olive oil is on the rise in Brazil and Russia, too. On balance, growth of new markets is expected at least to balance out depressed European demand. That means there will be no relief in sight from the demand side of the market. If you are an olive-oil lover, you will just have to dip into your savings to enjoy the oil.

Required:

- a) Changes in climatic conditions adversely affected the production and supply of olive oil in Spain. Discuss **four** other factors that determine the supply of olive oil. (8 Marks)
- b) In the year 2012 olive oil had inelastic demand, discuss **four** economic applications for the concepts of elasticity of demand. (8 Marks)
- c) Define the term inelastic demand. (1 Mark)
- d) Olive oil has a composite demand briefly explain **four** other types of demand (8 Marks)

QUESTION TWO

A firm has the following demand and cost functions:-

Demand: $p = 140 - 2q$

Total cost: $TC = 10 + 5q^2$

Where p represents price and q represents quantity.

Calculate:

- a) Profit maximizing price (10 marks)
- b) Maximum level of profit (5 marks)

QUESTION THREE

- a) With application of a graphic model, clearly illustrate the income and substitution effects of a fall in the price of a normal good. (10 marks)
- b) Define product differentiation. (1 mark)
- c) State two common examples of products competing in a monopolistically competitive market. (1 mark)
- d) Draw a model to show the short-run equilibrium of a firm in monopolistic competition. (3 marks)

QUESTION FOUR

Assume that a consumer's money income is Shs. 100,000, and that he can buy two goods: Rice and Unga. Given that the price of Rice is Shs 1000 per packet, and the price of Unga is Shs 2500 a packet,

- i) Draw a well-labeled budget line diagram and explain how it influences this consumer's behavior. **(5 marks)**
- ii) Show at what point along the Bu line, this consumer will optimize his/her satisfaction. **(5 marks)**
- iii) With the aid of diagrams, explain three main characteristics of indifference curves. **(5 marks)**

QUESTION FIVE

- a) With the aid of diagram, analyze how Taxes on Sellers affect market outcomes. **(5 marks)**
- b) Using suitable illustrations, explain the influence of Elasticity on the division of Tax Burden between sellers and buyers. **(5 marks)**
- c) Briefly analyze two ways how tax affects society's welfare. **(5 marks)**

QUESTION SIX

- a) Examine **five** factors affecting the likelihood of successful collusion in a cartel. **(5 Marks)**
- b) Discuss **three** sources of monopoly power **(6 Marks)**
- c) Examine **four** disadvantages of planned economy and how it affects economic development **(4 Marks)**