KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date:
Time: 9.00am –

KFI 100   - PRINCIPLES OF MICRO-ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a)   Using appropriate examples and diagrams where necessary, explain the following terms used in micro-economics;

    i)   Normative Analysis and Positive Analysis

(2 Marks)

    ii)   Production possibility frontier

(3 Marks)

    iii)   Stable equilibrium and Neutral equilibrium

(2 Marks)

    iv)   Giffen good and Inferior good

(2 Marks)

    v)   Total utility and marginal utility

(2 Marks)

    vi)   Scarcity and choice

(2 Marks)

    vii)   Microeconomics and Macroeconomics

(4 Marks)

    viii)   Perfect competition and monopoly markets

(3 Marks)

b)   Discuss FIVE factors that can influence the demand for a commodity in the market.

(10 Marks)

QUESTION TWO (20 MARKS)

a)   Given the following;

Demand function: $Q_d = 3550-266P$

Supply function: $Q_s = 1526 + 240 P$

Determine the equilibrium price and quantity.

(5 Marks)

b)   Using the ordinalist approach, show how the Engels curve for a normal good is derived.

(10 Marks)

c)   State the assumptions of cardinal's approach.

(5 Marks)

QUESTION THREE (20 MARKS)

a)   Outline five main determinants of elasticity of demand.

(5 Marks)

b)   Consider the production data below where labour is the variable factor of production;

i)   Find the average physical products and marginal physical products at each level of labour.

(7 Marks)

ii) Using the data, illustrate and explain the three stages of production in the short-run.

(8 Marks)

No of capital	No. of labour	TP_L
1 unit	0.	0
1 unit	1.	5
1 unit	2.	16
1 unit	3.	36
1 unit	4.	68
1 unit	5.	95
1 unit	6.	114
1 unit	7.	119
1 unit	8.	120
1 unit	9.	117
1 unit	10.	100

QUESTION FOUR (20 MARKS)

a) Determine the equilibrium quantities of commodities x and z for a consumer whose total utility (U) and other relevant variables are given below.

$$U = 20x - 4z^2 + 40z - x^2$$

Income level $Y = Ksh.48$

Price of $x(p_x) = ksh.2$

Price of $z(p_z) = ksh.4$

(10 Marks)

b) Using the indifference curve analysis distinguish between the substitution effect and income effect of a price change for normal good and giffen good.

(10 Marks)

QUESTION FIVE (20 MARKS)

a) The demand function for a good k is given by;

$$Q_k = 1,000 - 2P_k - 0.65P_w + 3P_x + 2M$$
Where;

Q_k = quantity demand of good k

P_k = Price of good k

P_w and P_x – Prices of related good W and X

M = income

Given P_x = Ksh. 1,750, P_k = Ksh. 1,000, P_w = Ksh. 3,000 and M = Ksh 1,000

Required;

i) Compute income elasticity of demand. From the income elasticity of demand is good k a luxury or a necessity good? Explain.

(7 Marks)

ii) Compute cross price elasticity of demand and interpret your results and show how commodity k is related to w and x.

(6 Marks)

b) With an aid of a well labelled diagram, compare and contrast between equilibrium of a monopolist and a perfectly competitive firm in the short run.

(7 Marks)