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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 6th December, 2019
Time: 8.30am – 10.30am

KFI 100 - PRINCIPLES OF MICRO – ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (COMPLUSORY)

- a) In a perfectly competitive market the average revenue and average cost functions are:
 $AR=k_1Qk_2$ and $AC=k_1/Q-k_2$ respectively k_1, k_2 are constants, Q is the output levels.
- i) Determine the level of output at which the firm breaks even. (6 Marks)
- ii) Explain the concept of 'diminishing marginal utility' (4 Marks)
- iii) Explain the stages of production as implied by the law of diminishing returns. (6 Marks)
- iv) Discuss the behavior of oligopolies in setting market prices (4 Marks)
- b) Explain the benefits of internal and external economies of scale that accrue to accompany as a result of expansion. (10 Marks)

QUESTION TWO (20 MARKS)

- a) Discuss the sources of monopoly power? (10 Marks)
- b) Discuss clearly the necessary and sufficient conditions for profit maximization by a firm. Support your answer with appropriate illustration. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Explain the merits of free enterprise economies. **(10 Marks)**
- b) Using indifference curve analysis, distinguish between the income and substitution effect of a price change. **(10 Marks)**

QUESTION FOUR (20 MARKS)

The following simultaneous equations are for two related markets of product B and M.

$$Q_{DB} = 164 - 6P_B + 2P_M$$

$$Q_{SB} = -10 + 30P_B$$

$$Q_{DM} = 184 - 4P_B + 8P_M$$

$$Q_{SM} = -12 + 64P_M$$

- a) Determine equilibrium price and quantity demanded and supplied in the two markets. **(7 Marks)**
- b) Explain the limitations of cardinal utility theories. **(3 Marks)**
- c) Derive the income consumption curve and the Engel curve. **(10 Marks)**

QUESTION FIVE (20 MARKS)

- a) What is a price control? Explain the circumstances under which it is considered necessary. **(10 Marks)**
- b) Discuss the properties of indifference curves. **(10 Marks)**