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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 110 (PSSP)**

**COURSE TITLE: INTRODUCTION TO MICROECONOMICS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 14/12/2020 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Differentiate between the following terms;

i) Microeconomics and macroeconomics **[2 marks]**

ii)Production Possibility frontier and scarcity  **[2 marks]**

iii) Arc and point elasticities **[2 marks]**

iv)Shift in supply curve and movement along the supply curve **[4 marks]**

1. The following economic functions have been derived by the finance manager of Kenya coffex limited;

Qa=3P2-4p

Qb=24-p2

i) which of the two functions could represent a demand curve? A supply curve? and why? **[6 marks]**

ii) At what values of price and quantity is the market in equilibrium?  **[4 marks]**

1. Using indifference curve analysis, demonstrate how a consumer equilibrium is attained**[4 marks]**
2. Graphically, explain the equilibrium output level of a firm operating under perfect market condition in the short run **[6 marks]**

**QUESTION TWO**

1. Consider the following total cost function

TC= 1000-5Q+10Q2-0.05Q2

Calculate

1. fixed cost **[2 marks]**
2. Variable cost **[2 marks]**
3. Average cost **[3 marks]**
4. Marginal cost **[3 marks]**
5. Using the law of variable proportions, discuss the 3 stages of production and suggest the stage at which a profit maximizing firm should produce.  **[10 marks]**

**QUESTION THREE**

1. Explain the effect of the following changes on the demand for ice cream
2. A fall in the price of ice cream **[2 marks]**
3. A health campaign which claims that ice cream makes you obese **[2 marks]**
4. A rise in the price of substitutes of ice cream **[2 marks]**
5. Graphically, explain why a monopoly is a price maker **[6 marks]**
6. Graphically, explain the concept of kinked demand curve of an oligopolist  **[8 marks]**

**QUESTION FOUR**

1. Explain the assumptions of perfect competition [10 marks]
2. Using a diagram, explain why a perfectly competitive firm earns normal profit in the long run **[6 marks]**
3. Using the following demand and supply functions of commodity X, compute the equilibrium price and quantity. **[4 marks]**

Qd=100-2p

Qs=40+4p

**QUESTION FIVE**

1. Explain properties of isoquants [6 marks]
2. Explain three major determinants of price elasticity of demand  **[6 marks]**
3. Using a diagram, explain how a disequilibrium occurs in a buyer’s market **[8 marks]**