JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

1ST YEAR 1ST SEMESTER 2023/2024 ACADEMIC YEAR

MAIN CAMPUS/NAIROBI CAMPUS

COURSE CODE: BEB 1101

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

DATE: 29/04/2024 **EXAM SESSION: 14.00 – 16.00 PM**

TIME: 2 HOURS

Instructions:

i. **Section A (COMPULSORY) and ANY other 2 questions from section B**
ii. **Candidates are advised not to write on the question paper.**
iii. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

SECTION A

1. Which one of the following is a factor of production?
   A. Elasticity
   B. Enterprise
   C. Environmental sustainability
   D. Equilibrium

(1 Mark)

2. Opportunity cost is
   A. A financial expense
   B. Measured in terms of what has been foregone
   C. The best way to allocate resources
   D. Zero when a Market is in (1 Mark)

3. Which one of the following would cause an inward shift of the demand curve for hats
   A. A national increase in wage rates
   B. Bad weather
   C. More hats are made
   D. Wearing a hat becomes less fashionable (1 Mark)

1. A market with a single producer is
   A. Always in equilibrium
   B. Called oligopoly
   C. Difficult for new firms to enter
   D. Highly competitive
2. Using the following demand and supply functions of a commodity Z, compute the equilibrium price and quantity D = 60 – P, S= 40 + P . Where P is the price of commodity Z, S is the supply of commodity Z and D is the demand for commodity Z
   A. 10P, 50 Q
   B. 10P, 60Q
   C. 10P, 40Q
   D. 20P, 50Q (1 Mark)
3. As a result of an increase in income of the consumers from Ksh 1200 to Ksh 2000, the quantity demanded increases from 400 to 600 units of clothes. Calculate the income elasticity of demand
   A. 50
   B. 60
   C. 40
   D. 30 (1 Mark)
4. On a graph for a perfect competition , Which of the following curves coincide
   A. The demand curve , average revenue curve , and marginal revenue curve
   B. The demand curve , average revenue curve , but not marginal revenue curve
   C. The demand curve and the marginal revenue curve , but not average revenue curve
   D. The average revenue curve and the marginal revenue , but not the demand curve

   (1 Mark)
5. Which of the following statements about Monopoly is true
   A. There are several companies producing a specific product
   B. There is only one producing company, but the products has close substitute
   C. There is no competition on the relevant markets
   D. Input barriers are low (1 Mark)

6. Calculate the average fixed cost (AFC) for a level of production Q = 20 , knowing the level of the total cost function is TC = 200 + 3Q + 20 Q2
   A. 1060
   B. 200
   C. 20
   D. 10 (1 Mark)
7. The law of demand implies that demand curve
   A. Shift leftward whenever the price rise
   B. Shift rightward whenever the price rise
   C. Slope down
   D. Slope up (1 Mark)
8. People buy more of good 1 when the price of good 2 rises. These goods are
   A. normal goods.
   B. complements.
   C. substitutes.
   D. inferior goods (1 Mark)
9. Which of the following does NOT shift the supply curve?
   A. an increase in the price of the good
   B. a fall in the price of a substitute in production
   C. a decrease in the wages of labor used in production of the good
   D. a technological advance (1 Mark)
10. In general, a flatter demand curve is more likely to be
   A. Price elastic
   B. Unit price elastic
   C. None of these answers
   D. Price inelastic (1 Mark)
11. In general, a flatter demand curve is more likely to be
   A. Price elastic
   B. None of these answers
   C. Unit price elastic
   D. Price inelastic (1 Mark)
12. Refer to the table to answer the following question. Total cost when the output is 4 Units

Q	TFC	TVC	TC
0	10	0	
1	10	5	
2	10	11	
3	10	18	
4	10	26	
5	10	36	

A. 34
B. 26
C. 36
D. 21 (1 Mark)

13. Which of the answer choices is not a characteristics of a free market economy
    A. Consumer sovereignity
    B. Public property
    C. Private property
    D. Profit (1 Mark)
14. Which of the following is NOT a basic economic question
    A. What to produce
    B. For whom to produce
    C. How to produce
    D. Where to produce
15. The short run is a time period in which:
    A. all resources are fixed.
    B. the level of output is fixed.
    C. the size of the production plant is variable.
    D. some resources are fixed and others are variable. (1 Mark)
16. The law of diminishing returns states that:
    A. as a firm uses more of a variable resource, given the quantity of fixed resources, the average product of the firm will increase.
    B. as a firm uses more of a variable resource, given the quantity of fixed resources, marginal product of the firm will eventually decrease.
    C. in the short run, the average total costs of the firm will eventually diminish.
    D. in the long run, the average total costs of the firm will eventually diminish. (1 Mark)
17. The reason the marginal cost curve eventually increases as output increases for the typical firm is because:
    A. of diseconomies of scale.
    B. of minimum efficient scale.
    C. of the law of diminishing returns.
    D. normal profit exceeds economic profit (1 Mark)
18. In which of the following market structures is there clear-cut mutual interdependence with respect to price-output policies?
    A. pure monopoly
    B. oligopoly
    C. monopolistic competition
    D. pure competition (1 Mark)
19. In which of the following industry structures is the entry of new firms the most difficult?
    A. pure monopoly
    B. oligopoly
    C. monopolistic competition
    D. pure competition (1 Mark)

20. An industry comprised of a small number of firms, each of which considers the potential reactions of its rivals in making price-output decisions is called:
    A. monopolistic competition.
    B. oligopoly.
    C. pure monopoly.
    D. pure competition. (1 Mark)

21. Economists would describe the Kenyan oil companies as:
    A. purely competitive.
    B. an oligopoly.
    C. monopolistically competitive.
    D. a pure monopoly. (1 Mark)
22. Income elasticity of demand is defined as the responsiveness of
    A. Quantity demanded to a change in income
    B. Quantity demanded to a change in price
    C. Price to change in income
    D. Income to a change in quantity demanded (1 Mark)
23. A decrease in demand is, graphically, represented by:
    A. A leftward shift in the demand curve.
    B. A rightward shift in the demand curve.
    C. A movement up and to the left along a demand curve.
    D. A movement down and to the right along a demand curve. (1 Mark)
24. Perfect competition is an industry with
    A. a few firms producing identical goods.
    B. many firms producing goods that differ somewhat.
    C. a few firms producing goods that differ somewhat in quality.
    D. many firms producing identical goods. (1 Mark)
25. In a perfectly competitive industry, there are
    A. many buyers and many sellers.
    B. many sellers, but there might be only one or two buyers.
    C. many buyers, but there might be only one or two sellers.
    D. one firm that sets the price for the others to follow 1Mark
26. Total economic profit is
    A. total revenue minus total opportunity cost.
    B. marginal revenue minus marginal cost.
    C. total revenue divided by total cost.
    D. marginal revenue divided by marginal cost
27. The price elasticity of demand for any particular perfectly competitive firm's output is
    A less than 1. B equal to zero. C infinite. D 1.

SECTION B

QUESTION TWO

The table below shows the income and household demand for milk per month

Price	Quantity
10	100
40	80
70	60
100	40
150	20
170	15
200	10

i. Calculate the price elasticity of demand when the price is at Ksh 40, 70, 100, 150,170, 200. 10 Marks

ii. Explain the determinants of elasticity of demand 10 Marks

QUESTION THREE

Write short notes on the following fundamental concepts

a. Scarcity and Choice
b. Opportunity cost
c. Production possibility curve
d. Positive and Normative economies 20 Marks

QUESTION FOUR

i. Explain the reasons for the adoption of a command and centrally planned economy 10 Marks
ii. Highlight the advantages and disadvantages of monopolistic competition 10 Marks

QUESTION FIVE

i. With the help of diagrams, explain the price and output of a firm operating under Monopolistic competition both in the short and long run 8 Marks

ii. Explain the sources of economies of scale 10 Marks