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 2016/2017 ACADEMIC YEAR

SPECIAL EXAM

COURSE CODE: AEC 101

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

EXAM VENUE: **STREAM: (BBA)**

DATE: **EXAM SESSION:**

TIME: 2   HOURS

Instructions:

1. Answer Question ONE (COMPULSORY) and ANY other 2 questions
2. Candidates are advised not to write on the question paper.
3. Candidates must hand in their answer booklets to the invigilator while in the examination room.

QUESTION ONE

(a) Define the following terms

        (i) Want   (1mk)

        (ii) Resources   (1mk)

        (iii) Free Goods   (1mk)

        (iv) Economic Man   (1mk)

        (v) The Price System   (1mk)

        (vi) The Market   (1mk)

(b) Economics is an Art and Science, discuss   (5mks)

(c) Briefly discuss the scope of Economics   (5mks)

(d) Identify the elements of Scarcity, Choice and Opportunity cost in each of the following;

        (i) The Environmental Protection agency is considering an order that a 500 - acre area on the outskirt of a large city be preserved in its natural state, because the area is home to a rodent that is considered an endangered species. Developers had planned to build a housing development on the land. (3mks)

        (ii) The manager of an automobile assembly plant is considering whether to produce cars or Sports Utility Vehicles (SUVs) next month. Assume that the quantities of labour and other materials would be the same for either types of production.   (3mks)

        (iii) A young man who went to work as a nurse' aide after graduating from high school leaves his job to go to college, where he will obtain training as a registered nurse.   (3mks)

(e) Briefly discuss **ANY FIVE** exceptions of demand curve (The Law of Demand).
                                  (5mks)

QUESTION TWO
(a) Law of demand is based on certain basic assumptions. State ANY of these THREE basic assumptions.   (3mks)

(b) Briefly discuss **ANY SEVEN** factors that may result into a shift into demand curve. (7mks)

(c) Briefly discuss **ANY FIVE** short fall they may be realized by a government that may adopt a purely free Market system in its economy. (10mks)

QUESTION THREE
(a) State the law of diminishing returns as applied to production functions. (3mks)

(b) Illustrate and explain the three stages associated with the law of variable proportion. (9mks)

(c) Justify why demand curve slopes downward from left to right (Negative Slope). (8mks)

QUESTION FOUR
Briefly discuss the following:
(a) Scarcity and choice. (4mks)
(b) Diminishing marginal utility. (4mks)
(c) Price elasticity of demand. (4mks)
(d) Income elasticity of demand. (4mks)
(e) Substitution and income effects of a price change. (4mks)

QUESTION FIVE
(a) Give **ANY TEN** differences between perfect market and monopoly market. (10mks)

(b) There are 10,000 identical consumers in the market for commodity x, each with a demand
function given by $Q_{dx} = 12 - 2P_x$ and 1,000 identical producers of commodity x, each with a
function given by $Q_{sx} = 20P_x$.

where: Q_{dx} is the quantity demanded of commodity x.

Q_{sx} is the quantity supplied of commodity x.

P_x is the price of commodity x.

Required:
(i) Obtain the market demand and the market supply functions of commodity x.

(4mks)

(ii) Obtain market demand and market supply schedules of commodity x and determine the equilibrium price and equilibrium quantity.   (6mks)