

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2013/14

**FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE
OF BACHELOR OF BUSINESS ADMINISTRATION**

BUSIA STUDY CENTRE

AEC101: INTRODUCTION TO MICROECONOMICS

Date: _____ Time: 2HOURS

INSTRUCTIONS:

Answer QUESTION ONE and any other TWO questions

QUESTION ONE

(a) Briefly relate the following to the law of demand:

- (i) Diminishing marginal utility. (4marks)
- (ii) Substitution effect of a price change. (3marks)
- (iii) Income effect of a price change. (3marks)

(b) Using a well labeled diagram, explain the equilibrium position of a firm under monopoly in the long- run. (10marks)

(c) Discuss the assumptions of the law of diminishing marginal utility. (10marks)

QUESTION TWO

A firm under perfectly competitive market is faced with a price of kshs 200 and the following schedule of total cost at various output levels:

Output levels(Q)	Total costs(TC)	Average total costs (ATC)	Marginal costs (MC)
0	3000		
10	4700		
20	5700		
30	6600		
40	7200		
50	7500		
60	8400		
70	9800		
80	11800		
90	14300		
100	18000		

- (i) State the total fixed costs. (2marks)
- (ii) Complete the table. (8marks)
- (iii) At what level of output would the firm maximize its profit? Give a reason for your answer. (6marks)
- (iv) Calculate the maximum profits. (4marks)

QUESTION THREE

- (a) Discuss the practical applications of price elasticity of demand. (8marks)
- (b) With a well labeled diagram, explain the relationship between total, average and marginal product curves, hence or otherwise identify the three stages of production in the classical production function. (12marks)

QUESTION FOUR

- (a) Discuss the sources of monopoly power. (10marks)
- (b) Discuss factors that influence the demand for a commodity. (10marks)

QUESTION FIVE

- (a) Using a well labeled diagram, describe how a firm under monopolistic competition attains equilibrium in the long run. (8marks)
- (b) Briefly but clearly describe the following terms as used in oligopoly:
 - (i) Kinked demand curve (4marks)
 - (ii) Tacit collusion (4marks)
 - (iii) The Price leader (4marks)