



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS & ECONOMICS**  
**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF**  
**INTERNATIONAL TOURISM**  
**1<sup>ST</sup> YEAR 1<sup>ST</sup> SEMESTER 2019/2020 ACADEMIC YEAR**

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**COURSE CODE: BEN 311**

**COURSE TITLE: INTRODUCTION TO MICROECONOMICS**

**EXAM VENUE: STREAM: (BIT, SMAS )**

**DATE: EXAM SESSION:**

**TIME: 2 HOURS**

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**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.**

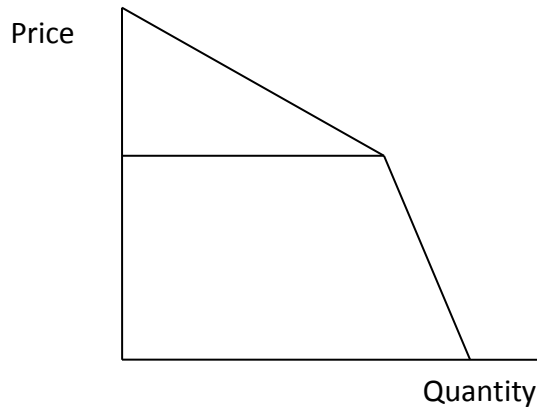
**QUESTION ONE**

- a. Define the term Free market economy and explain its main features 10 Marks
- b. Using well labelled diagrams explain the categories /degree of elasticity of demand 10 Marks
- c. The following table shows the effects of changes in the price of Commodity Y on the demand for Commodity X

Price of Y	Demand of X
Ksh	Units
20	5
25	6
30	10

Calculate the cross elasticity of demand when price at Ksh 25, and 30 4 Marks  
4 Marks

- d. The diagram below shows the demand curve for a firm operating under a certain market in an economy



- I. Explain the price and output under this firm
- II. Explain the factors that may attempt this firm enter into collusion 6 Marks

**QUESTION TWO**

- a. With the aid of a diagram , explain how the short and long run equilibrium can be achieved in a firm operating under Monopolist competition 10 Marks
- a. Explain what is meant by Economies of Scale and why they arise in the manufacturing industry 10 Marks

### QUESTION THREE

- a. Using relevant diagrams, explain the followings
- i. Expansionary and contractionary demand
  - ii. Increase and decrease demand 10 Marks
- b. Suppose a chair manufacture is producing in the short run ( with existing plant and equipment). The Manufacture has observed the following levels of production corresponding to different number of workers.

Number of workers	Number of Chairs
1	10
2	30
3	60
4	88
5	100
6	110
7	118
8	118
9	110
10	100

- i. Calculate the Average and Marginal Product of Labor
- ii. Use the table above to explain the law of variable proportions 10 Marks

### QUESTION FOUR

- a. Explain any FOUR practical application of the concept of elasticity of demand in the management and economic policy decision making 10 Marks
- b. Explain the determinants of supply and the movement along the supply curve 10 Marks

### QUESTION FIVE

- a. Explain the importance of studying microeconomics 10 Marks
- b. 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 4 Marks
- b. With the aid of a diagram, describe how a firm operating under monopolistic competition can attain equilibrium position while making supernormal profits 6 Marks