TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business and Social Studies

Faculty of Engineering & Technology

DEPARTMENT OF BUSINESS STUDIES

DEPARTMENT OF COMPUTER SCIENCE & IT

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMPUTER SCIENCE & IT

BACHELOR OF COMMERCE

BFI 4102: INTRODUCTION TO ECONOMICS

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages

QUESTION 1 (Compulsory)

a) Write short notes to explain the following:
   i) Shift in the supply curve and movement along the supply curve. **(2 marks)**
   ii) Stable equilibrium. **(2 marks)**

b) Using a diagram explain the concept of 'diminishing marginal utility". **(2 marks)**

c) i) Define the term "indifference curve". **(2 marks)**
   ii) With the aid of separate diagrams illustrate indifference curves for perfect substitutes and for perfect complimentary goods. **(4 marks)**

d) i) Explain the difference between fixed and variable costs. **(4 marks)**
ii) Distinguish between average and marginal costs. **(4 marks)**

e) i) Explain the term price discrimination as used in economics. **(2 marks)**
ii) Outline the necessary conditions for a firm to successfully price discriminate. **(6 marks)**

f) Outline **TWO** types of returns to scale. **(2 marks)**

QUESTION 2

a) Explain the main determinants of elasticity of demand. **(6 marks)**

b) Briefly describe **SIX** economic applications of the concept of elasticity of demand. **(6 marks)**

c) i) What is elasticity of demand? **(2 marks)**
ii) What is point elasticity of demand? **(2 marks)**
iii) The demand for a commodity is **FIVE** units when the price is Ksh. 1,000 per unit. When the price rises to six units. Compute the point and arc elasticity of demand. **(4 marks)**

QUESTION 3

a) In a two-commodity market model the supply and demand functions are given as:

$$Q_{s1} = -6 + 8p_1$$
$$Q_{s2} = -36 + 8p_2$$
$$Q_{d1} = 8 - 2_{p1} + p_2$$
$$Qd_2 = 20 + 2p_1 - 2p_2$$

Required:
i) Explain the relationship between the two commodities giving valid economic reasons. **(2 marks)**
ii) Using the functions provided, calculate the equilibrium values of price and quantities. **(6 marks)**

b) Discuss some of the factors that may cause a shift of the supply curve. **(12 marks)**

QUESTION 4

a) Distinguish between 'micro economics" and "macro economics". **(4 marks)**

b) Identify **FIVE** ways in which governments can influence the allocation of resources. **(10 marks)**

c) i) Define the term "consumer sovereignty". **(2 marks)**
ii) Outline the limitations of consumer sovereignty. **(4 marks)**

QUESTION 5

a) Explain the income and substitution effects of a change in the price of X, assuming that commodity X is:
   i) a normal good
   ii) an inferior good
   iii) a giffen good **(6 marks)**
   (Diagram 2 marks)

b) Outline the applications of indifference curve analysis. **(12 marks)**