TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMMERCE

BFI 4102: INTRODUCTION TO MICRO ECONOMICS

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2 HOURS

DATE: Pick Date Dec 2016

Instructions to Candidates

You should have the following for this examination
-Answer Booklet, examination pass and student ID
This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.
Do not write on the question paper.

Question ONE (Compulsory)

a) Illustrate a Micro Economic system and explain the interaction between households and firms

(**4 marks)**

b) Explain the following

(i) Opportunity Cost

(ii) Rational Choice

(iii) Centeris Paribus Assumption   (**6 marks)**

c) Define Normative and Positive Economics and identify whether the following statement is a positive statement or a normative statement

"the government is right to introduce speed governors on public transportation"   (**5 Marks**)

d) With the aid of diagrams illustrate

i) an increase in demand

ii) a decrease in **quantity demanded**   **(5 marks)**

e) When any factor that influences selling plans other than the price of the good changes, there is a change in supply. Give **four (4)** main factors that bring changes in supply   **(10 marks)**

Question TWO

A) (i) Consider the ice cream market in Mombasa. In November, the ice cream market demand and supply curves were given by the following equations where Q is the quantity of ice cream units and P is the price in shillings per unit of ice cream:

Demand: $Q = 14000 – 10P$

Supply: $Q = 2000 + 20P$

Find the equilibrium price and quantity of ice cream in November.   **(5 Marks)**

(ii) Illustrate the concept of consumer surplus and explain how an economy can revert back to equilibrium
                                                                                        (5 Marks)

B Discuss the factors that influence the elasticity of Demand   **(10 Marks)**

Question THREE

A. The following is the demand schedule for Ice cream being sold per hour

Price Ksh	Demand for Ice cream (Per Hour)
200	50
250	45
300	40
350	35
400	30
450	25
500	20

i)Calculate the Price Elasticity of Demand when the price of Ice cream increases from 300ksh to 350ksh and indicate the type of elasticity in this case. **(5 Marks)**

ii) Define the following, stating what a negative or positive result means in each case

- Cross Elasticity of Demand

- Income Elasticity of Demand **(5 Marks)**

B

(i) Define Utility and explain with the aid of an illustration the term diminishing marginal utility **(6 Marks)**

 (ii) State four (4) properties of indifference curves **(4 Marks)**

Question FOUR

A) (i) Define the following

- Total fixed costs

- Total Variable costs **(4Marks)**

(ii) Briefly explain 3 constraints a firm experiences in their objective to maximize profits **(6 Marks)**

B The data below show a tabulation on the production of a hypothetical product

Output (Q) Units	0	2	4	6	8	10	12	14	16
Total Costs	50	64	72	84	96	116	134	156	196

Using the above data, determine,

(i) Total fixed Cost

(ii) Average Variable Cost when output equals 6 units

(iii) Marginal Cost between 2 and 4 units of output **(10 Marks)**

Question FIVE

A) Discuss the three (3) types of business ownerships giving one advantage and disadvantage of each

(10 Marks)

B) Distinguish between a perfectly competitive market and a monopolistic market giving properties of the two types of markets **(10 Marks)**