



**TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS**

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATIONS 2016/2017

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR BACHELOR OF
BUSINESS AND OFFICE MANAGEMENT

BFI 4102: MICROECONOMICS

END OF SEMESTER EXAMINATIONS

SERIES: DECEMBER 2016

TIME: 2 HOURS

INSTRUCTIONS:

1. Answer Question **ONE (Compulsory)** and any other **TWO** questions.
2. Question one carries 30 marks
3. Other questions carry 20 marks each.
4. Marks will be awarded to students who demonstrate accuracy and clarity of presentation.
5. Calculators are allowed in the examination room

QUESTION ONE (COMPULSORY)

- a) Define normal and inferior goods. Give an example in each case (5 marks)
- b) State the meaning of the following equation $\frac{MU_F}{P_F} = \frac{MU_m}{P_m}$. Where: F= food, MU= Marginal utility, m=medicine, P= Price (4 marks)
- c) Write short notes on the following (6 marks)
- Indifference curve
 - Compensation variation
 - Consumer surplus
- d) Consider the production function $Q = AL^\alpha$ where $0 < \alpha < 1$ and $A > 0$
- Find the marginal product of labour (MP_L) in terms of α, L and A (4 marks)
 - Determine the slope of MP_L (3 marks)
 - What is the sign of the slope of MP_L ? (2 marks)
- e) The demand facing ABC Company Ltd for its products is represented by the equation $Q_d = 50 - P$, Where; Q_d is quantity demanded and P is price. The supply of the company is given as $Q_s = 5 + 0.5P$, Where; Q_s is the quantity supplied.
- Required
- Solve the equilibrium quantity and price. (2 marks)
 - If the government imposes a specific sales tax at the rate of Shs 2 per unit, compute the new equilibrium price and quantity? (4 marks)

QUESTION TWO

- a) Discuss the main features of oligopolistic form of a market structure. (6 marks)
- b) Discuss any four merits of a socialist economic system. (8 marks)
- c) Define positive and normative economics giving an example in each case (6 marks)

QUESTION THREE

- a) Given the following demand and cost functions of a monopolist as:

$$P = 100 - 2Q$$
$$C = 50 + 40Q$$

Where P= price, Q= output, C=cost. Calculate:

- i. The monopolist maximizing output (4 marks)
 - ii. The monopolist maximizing price (4 marks)
 - iii. The monopolist profit (4 marks)
- b) Discuss the assumptions under the revealed preference theory (8 marks)

QUESTION FOUR

- a) Explain the determinants of supply of a commodity. (8 marks)
- b) With the aid of well labeled diagrams differentiate between movement along the demand curve and shift of the demand curve citing the determinants in each case. (8 marks)
- c) Differentiate between cross and income elasticity of demand. (4 marks)

QUESTION FIVE

- a) Given a consumer's budget/ income constraints as \bar{m} , where:- P_y = price of good Y, P_x = price of good X, Q_y = quantity of good Y, Q_x = quantity of good X. $P_x = 100, P_y = 200, \bar{m} = 2000$. Determine the consumer's budget line (illustrate with a diagram) (8 marks)
- b) Explain the causes of monopoly (8 marks)
 - c) What is a Veblen good (4 marks)