TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATION FOR:

DEGREE

BFI 4102: INTRODUCTION TO MICROECONOMICS

END OF SEMESTER EXAMINATION

SERIES:AUGUST2019

TIME:2HOURS

DATE: Pick DateAug2019

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

Question ONE

i) Write short notes on the following economic concepts
- **(a)** Opportunity cost **(2 Marks)**
- (b) Scarcity of resource **(2 Marks)**
- **(c)** Production function **(2 Marks)**

ii) Distinguish between "microeconomic' vs macroeconomics and normative vs Positive economics **(6 Marks)**

iii).Discuss the relationship between elasticity, total expenditure and price consumption curve, in case of elastic demand . **(6Marks)**

iv). Graphically explain how constant return to scale happens **(6Marks)**

v). Discuss the sources of monopoly power **(6 Marks)**

Question TWO

a). Assume that a producer has the possibility of discriminating between a domestic and foreign

111Market for a product where the demand functions respectively are given as follows:-

$Q_1 = 42 - 0.2\ P_1$

$Q_2 = 100 - 0.8\ P_2$

Total Cost is given by:-

$TC = 4000 + 20\ Q$

Where $Q = Q_1 + Q_2$

Calculate the Q_1 , P_1 , Q_2 , P_2 when profits are maximized under price Discrimination. **(12 marks)**

b). discuss the features of a perfect competitive firm and highlight three (3) criticism of the said assumptions **(8 marks)**

Question THREE)

(a) Using a graph, explain how equilibrium point can be restored in case of divergences away, due to excess demand of a normal good **(10 Marks)**

(b) Using a well labeled diagram, illustrate how a consumer maximizes his utility subject to his budget constraints, what are the condition for equilibrium **(10 Marks)**

Question FOUR

Assume that a producer has the possibility of discriminating between a domestic and foreign

Market for a product where the demand functions respectively are given as follows:-

$Q_1 = 42 - 0.2\ P_1$

$Q_2 = 100 - 0.8\ P_2$

Total Cost is given by:-

$TC = 4000 + 20\ Q$

Where $Q = Q_1 + Q_2$

Question: Calculate the Q_1 , P_1 , Q_2 , P_2 when profits are maximized under price Discrimination. **(12 marks)**

b) Discuss the assumption of the ordinalist approach in consumer behavior theory **(8 marks)**

Question FIVE

a). Graphically, Examine the short run equilibrium of a firm in perfect competition. **(10 Marks)**

b) Discuss how a free price mechanism leads to optimal allocation of resources under perfect competition. (10 Marks)