PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS1313/BCM101: INTRODUCTION TO MICROECONOMICS

SATURDAY NOVEMBER 29TH, 2014

0800HRS – 1100HRS

INSTRUCTIONS

- This exam paper has **Six** Questions
- Answer **Any Five** Questions
- Write your **student number** on the answer booklet provided.
- Read all questions carefully before attempting.
- Use a new page for every question attempted and indicate the question number on the space provided on each page of the answer sheet.

Answer any Five Questions

Question One

a. Define the economic problem clearly showing the relationship between the scarcity, choice and the opportunity cost **(4 Marks)**

b. The following information was disclosed in relation to a community

Possibility	Bags of Vegetable per week	Crates of Eggs per week
A	0	100
B	1	95
C	2	85
D	3	70
E	4	40
F	5	0

i. Using the information given, show the various combinations of the production on a production possibility frontier(PPF) **(10 Marks)**

ii. Using a separate PPF, show how the Increase in resources and improved production techniques would affect the curve from its original state as indicated in question b(i) here above **(6 Marks)**

Question Two

a. Clearly discuss four various determinants of price Elasticity **(8 Marks)**

b. Describe the concept of the income elasticity of demand. **(3 Marks)**

c. By use of a demand curve, illustrate the change in price of a product on the quantity demanded on the following scenarios:

i. Inelastic Demand **(3 Marks)**

ii. Unitary Elastic Demand **(3 Marks)**

iii. Perfectly Elastic Demand **(3 Marks)**

Question Three

The Table here below shows the demand of Tomatoes in a market on a particular day

Price of Tomatoes	Quantity demanded	Quantity Supplied per kg	Effect on Supply/ Demand	Pressure on Price
1	360	0		
2	320	50		
3	280	100		
4	240	150		
5	200	200		
6	160	250		
7	120	300		
8	80	350		

a. Using the information given, complete the table by showing the effect of supply and demand and the pressure on price on each of the days. **(10 Marks)**

b. Prices serve both the rationing function and the allocative function in a market economy. Explain this statement as it applies to the market environment. Use practical examples to support your explanation **(10 Marks)**

Question Four

a. Explain the law of diminishing returns in the Short run and in the long run production (**6 Marks)**

b. The following Data was provided for the production of a good in the short run.

Quantity	Total Fixed cost	Total Variable cost	Total Cost
	Kes	Kes	Kes
0	5	0	5
5	5	20	25
10	5	30	35
15	5	40	45
20	5	50	55
25	5	60	65
30	5	70	75
35	5	80	85
35	5	90	95

Using one diagram, present the data summarized here above in a variable cost curve, a total variable curve and a total fixed cost **(12 Marks)**

Question Five

Explain the following terms as they are applied in Economics

i. Economies of Scale **(4 Marks)**
ii. homogeneous products **(4 Marks)**
iii. Substitution effect of a price change. **(4 Marks)**
iv. Consumer Benefit and Producer surplus **(4 Marks)**
v. Marginal Utility **(4 Marks)**

Question six

a. Describe the characteristic of a perfectly competitive market. **(8 Marks)**
b. Define the shutdown rule and state its importance in economics **(4 Marks)**
c. Explain the nature of monopolistic competition clearly showing the equilibrium of a firm under such markets **(8 Marks)**