PANAFRICACHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE/ BACHELOR OF BUSINESS LEADERSHIP/BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS LEADERSHIP

COURSE CODE: BUS 1313/BCM 101

COURSE TITLE: PRINCIPLES OF MICROECONOMICS

EXAM DATE: WEDNESDAY 30TH MARCH 2016

TIME: 1400HRS – 1700HRS

ROYSAMBU DAY

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

ANSWER ANY FIVE QUESTIONS {20 MARKS}

QUESTION ONE

a) Explain any **THREE** ways microeconomics shows how people make decisions **(6 Marks)**

b) Explain the following factors of production
   i) Labour **(3 Marks)**
   ii) Capital **(3 Marks)**
   iii) Natural Resources **(3 Marks)**

c) With a suitable example explain the relationship between a demand schedule and a demand curve **(5 Marks)**

QUESTION TWO

a) Suppose that the equilibrium price of a litre of petrol is Kes 110 per litre. The government decides to place a maximum price on petrol and will not allow sellers to charge more than Kes 120 per litre.
   i) Draw this situation using a graph. Make sure that you show the original equilibrium and the effect of the price ceiling on the market. **(5 Marks)**
   ii) Explain what will happen in this market. **(5 Marks)**

b) A number of factors may influence the quantity supplied for a product, explain any**FIVE** of these factors **(10 Marks)**

QUESTION THREE

a) With the use of separate and well labelled diagrams explain each of the following states of demand and supply
   i) Equilibrium **(5 Marks)**
   ii) Excess supply **(5 Marks)**
   iii) Excess demand **(5 Marks)**

b) Explain how the price system eliminates a shortage. **(3 Marks)**

c) Explain the law of diminishing marginal utility. **(2 Marks)**

QUESTION FOUR

a) Suppose the demand for bananas increases. Explain how the price of bananas adjusts after the increase in demand. **(4 Marks)**

b) Explain any **TWO** types of non-price rationing systems. **(4 Marks)**

c) Distinguish between the following terms. Make appropriate use of diagrams

   i) Price ceiling and price floor. **(6 Marks)**

   ii) Positive economics and Normative economics **(6 Marks)**

QUESTION FIVE

a) Calculate the equilibrium price and quantity for the following demand and supply functions

   i) $Q_d = 300 - 2P$ and $Q_s = 3P$ **(5 Marks)**

   ii) $Q_d = 460 - P$ and $Q_s = 60 + 3P$ **(5 Marks)**

b) Assuming that utility can be measured in units, explain the relationship between marginal utilities of goods and their marginal rate of substitution **(10 Marks)**

QUESTION SIX

a) Explain **FOUR** properties of the indifference curve **(8 Marks)**

b) Production undergoes four stages. Answer the following questions on the production stages.

   i) Highlight **THREE** characteristics of the second stage of production **(6 Marks)**

   ii) Highlight **THREE** characteristics of the third stage of production **(6 Marks)**