PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BCM101/BUS1313: INTRODUCTION TO MICRO-ECONOMICS

MONDAY AUGUST 4TH, 2014

1800HRS – 2100HRS

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.

Read all questions carefully. Answer ANY FIVE QUESTIONS.

QUESTION ONE

You were recently appointed Kiamumbi Dairies Limited a new company that will specialize in purchase, processing and distribution of milk and milk related products in Kiamumbi Town, Kiambu County. Your main task will be to grow the business with a view to opening branches in 10 counties over the next 3 years. You are required to write a report to the Directors covering the following:

a) **FOUR f**actors that influence the quantities your customers purchase (8 marks)

b) **FOUR** problems that Kiamumbi Town may experience if many firms are opened in the area (8 marks).

c) How changes in taxation may affect the company's business (4 marks)

QUESTION TWO

a) Describe **FIVE** features of a monopolistic competition market structure (10 marks)

b) Describe price elasticity of supply (2 marks)

c) Explain FOUR factors that influence the price elasticity of supply of sugar in Kenya (8 marks)

QUESTION THREE

a) Explain THREE benefits and THREE drawbacks of capitalism (12 marks)

b) With the aid of a diagram, explain the concept of diminishing marginal utility (8 marks)

QUESTION FOUR

a) Explain FIVE investment products that could be classified as "financial assets" (10 marks)

b) Explain the following economic concepts;

i. Market. (2 marks)

ii. Wants (2 marks)

iii. Economic systems (2 marks)

iv. Utility (2 marks)

v. Goods (2 marks)

QUESTION FIVE

The table below represents market statistics for product Y in market X

Price (KES)	Units Bought
100	500
120	600
150	800
160	1000
180	1200

Required

a) i) Calculate the price elasticity of demand for community Y:

- When price changes from KES 100 to 120 and; (4 marks)
- When price changes from KES 150 to 160 (4 marks)

i) Giving reasons, explain the type(s) of elasticity of demand exhibited by product Y (4 marks)

b) Explain FOUR classifications of costs as incurred by firms (8 marks)

QUESTION SIX

a) Giving reasons, and with the aid of a diagram, explain the indifference curves that would be exhibited by consumers when handling perfect substitutes (10 marks)

b) i) Explain the concept of a shift in a demand curve (2 marks)

ii) Explain FIVE factors that may cause a shift in the demand curve of a product (8 marks)