**PAN AFRICA CHRISTIAN UNIVERSITY**

**SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY**

**END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**BACHELOR OF BUSINESS LEADERSHIP**

**DECEMBER 2018 EXAMINATIONS**

**CAMPUS: ROYSAMBU**

**DEPARTMENT: BUSINESS STUDIES**

**COURSE CODE: BUS1313|BCM101**

**COURSE TITLE: PRINCIPLES OF MICRO ECONOMICS**

**EXAM DATE: THURSDAY 6TH DECEMBER 2018**

**DURATION: 3 HOURS**

**TIME: 2:00PM-5.00PM**

**INSTRUCTIONS**

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- Answer question **ONE** and any other **FOUR** questions
- *Write clearly and legibly.*
- *ALL PAC University's examination rules and regulations apply*

## QUESTION ONE: COMPULSORY

a. Distinguish between positive economics and normative economics. **(4 Marks)**

b. Illustrate using diagrams the indifference curves of:

   i. Perfect substitutes **( 6 Marks)**

   ii. Perfect complements. **(6 Marks)**

c. Explain three properties of isoquants. **(6 Marks)**

d. Discuss four effects of price controls. **(8 Marks)**

e. Explain five determinants of demand. **(10 Marks)**

## QUESTION TWO

a. Using a diagram describe the production possibility frontier. **( 7 Marks)**

b. Explain four assumptions of the law of diminishing marginal returns. **(8 Marks)**

## QUESTION THREE

**a.** Distinguish between point elasticity of demand and arch elasticity of demand. **(5 Marks)**

b. Discuss five features of perfect markets. **(10 Marks)**

## QUESTION FOUR

a. Giving appropriate examples, explain the term "fixed factors of production". **(3 Marks)**

b. Explain two assumptions of isocosts **(4 Marks)**

c. The demand and supply schedules for carrots in Kasarani market are given below.

| Price (Kshs) | Quantity demanded per month ( thousands of tonnes) | Quantity supplied per month(thousands of tonnes) |
|---|---|---|
| 2 | 110 | 5 |
| 4 | 90 | 46 |
| 8 | 67.5 | 100 |
| 10 | 62.5 | 115 |
| 12 | 60.0 | 122.5 |

Determine the equilibrium quantity and price by graphical method. **(8 Marks)**

**QUESTION FIVE**

a. Explain the law of supply. **( 2 Marks)**

b. A firm produces candles. The market for candles is highly competitive, with candles currently selling for $10. The firm's short-run total cost function is $C = 200 + 0.2q^2$, so its marginal cost is $MC = 0.4q$.

   i. Calculate the firm's profit-maximizing quantity? **(2 Marks)**

   ii. Determine whether the firm is earning a profit. **( 3 Marks)**

c. The total cost function in the production of iron sheets in ABC company is given as: $C= 2000 +25Q^2 + Q^3$ where C is the cost in Kenya shillings and Q is the quantity in kilograms.

   Required:

   i. Calculate the marginal cost when the output is 12 Kg. **(3 Marks)**

   ii. Compute total cost and average cost at the output of 10kg and 11kg. **(4 Marks)**

**QUESTION SIX**

a. Define the term "inferior good". **( 1 Mark)**

**b.** Distinguish between a monopoly and monopolistic competition **(3 Marks)**

c. Calculate point elasticity of demand given:

   $Qd= 1/p + p^2 +1$ when $p= 2$ **(5 Marks)**

d. Explain three properties of indifference curves. **( 6 Marks)**