PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS 1313 BCM 101 BIT 108 DSM 101

PRINCIPLES OF MICROECONOMICS

TUESDAY MARCH 31ST, 2015

1400HRS – 1700HRS

INSTRUCTIONS

- This exam paper has **Six(6)** 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.

QUESTION ONE

a) "Choice is the center of all economic problems" Discuss this statement and indicate how far an individual has freedom of choice(10marks)

b) Discuss the problem associated with using the price mechanism as a way to deal with

   i. The allocation of university places

   ii. Traffic problems in cities (10marks)

QUESTION TWO

a) Describe five factors which could lead to a shift in demand (10marks)

b) Describe five situations when application of price controls would be necessary. (10marks)

QUESTION THREE

a) Using a well labeled diagram, explain price elastic and price inelastic demand. Further explain the reasons for the respective types of elasticities you have mentioned.(15 marks)

b) Distinguish between the following set of terms.

   Average cost and marginal cost (5marks)

QUESTION FOUR

a) Describe the pros and cons of product differentiation (10marks)

b) Using a diagram describe the 3 stages in analyzing the Law of variable proportions. (10marks)

QUESTION FIVE

a) Explain three (3) challenges a firm in perfect competition market structure would face as it endeavors to make profit and give three (3) suggestions on how to overcome the mentioned challenges. (12 marks)

b) Explain 4 characteristics of capitalist economic system (8marks)

QUESTION SIX

a) Describe the features of a prefect market and how prices are determined in such a market. (10marks)

b) Explain 5 argument against and 5 arguments for monopolies (10Marks)

END