



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER -2018

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS / BACHELOR OF COMMERCE
(YR I SEM II)**

UNIT CODE: HBC 2104

UNIT TITLE: MICROECONOMIC THEORY I

DATE: 17TH DECEMBER, 2018

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) Distinguish between positive and normative approach in economic. Of what significance is this distinction to the making of economic policy? (8 Marks)
- (b) The total cost equation in the production of bacon at some hypothetical factory is

$$C = 1000 + 100 Q - 15Q^2 + Q^3$$

Cost (C) is measured in Ksh. While bacon in metric tone.

- (i) Compute the total and average costs at output levels of 10 and 11 tones. (4 Marks)
 - (ii) What is the marginal cost of the 12th tone? (4 Marks)
 - (iii) Sketch the shape and explain relationship between average cost and marginal cost curves in the production of bacon. (10 Marks)
- (c) Clearly distinguish between monopoly and monopolistic market structures. (4 Marks)

QUESTION TWO

- (a) What is the difference ‘diminishing returns’ and ‘decreasing returns to scale.’ (4 Marks)
- (b) State the assumptions of cardinal approach. (4 Marks)
- (c) Using an illustration explain fully the stages involved in the production of any commodity. (12 Marks)

QUESTION THREE

- (a) Distinguish between an inferior good and normal good. (3 Marks)
- (b) Using an illustration explain the concept of resource scarcity and discuss its importance in our daily lives. (8 Marks)
- (c) There exists a situation where demand curve may slope upwards instead of downwards from left to right. Explain the conditions for the existence of abnormal demand curves. (9 Marks)

QUESTION FOUR

- (a) Explain the usefulness of the concept of elasticity. (12 Marks)
- (b) Determine the equilibrium quantity of commodities X and Z for a consumer whose total utility (U) and other variables are given below; (8 Marks)

$$U = 40x - 3z^2 - 2z - x^2$$

Income level $y = \text{ksh. } 48$

Price of x (P_x) = kshs. 2

Price of z (P_z) = ksh. 4

QUESTION FIVE

- (a) Using an ordinalist approach, show how the engels curve for a normal good is derived. (10 Marks)
- (b) Explain the characteristics of an oligopolistic market structure. (10 marks)
- (c)