

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/COOPERATIVE COMMUNITY
DEVELOPMENT**

UNIT CODE: HCOB/HBC/CMCC

UNIT TITLE: INTRODUCTION TO MICRO-ECONOMICS

DATE: DECEMBER, 2018

TIME:

INSTRUCTIONS:

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

QUESTION ONE

- (a) Distinguish between the following sets of terms as used in economics giving an examples in each case
- Micro economics and macroeconomics (2 marks)
 - Inductive and deductive approach (2 marks)
 - Scarcity and choice (2 marks)
- (b) Discuss giving appropriate examples the central economic problem highlighting the relationship between scarcity, choice and opportunity cost (4 marks)
- (c) Define an economic system and distinguish between a free market economy and a centrally planned economic systems each in resources allocation (6 marks)
- (d) Suppose in a two commodity market model the supply and demand functions are given as:
- $$Q_{S1} = -3 + 4P_1 \quad Q_{S2} = 18 + 4P_2$$
- $$Q_{d1} = 4 - P_1 + \frac{1}{2}P_2 \quad Q_{d2} = 10 + P_1 - P_2$$
- Required:
- Explain the relationship between the two commodities giving valid economic reasons (4 marks)
 - Using the functions provided. Calculate the equilibrium values of prices and quantities (4 marks)
- (e) Discuss the nature of long run average cost curve of a firm (6 marks)

QUESTION TWO

Assume a consumer spends all his income in the purchase of two goods X and Y whose prices are shs 30 and shs 20 per unit respectively. The consumer's monthly income is shs 12,000. He is satisfied with various combinations of X and Y but prefers to spend his income in equal proportions on the two commodities that is, at a ratio of 1:1 to maintain his level of satisfaction

- (a) Using clearly labeled diagrams:
- Show the relevant budget line and indifference curves indicating the equilibrium position of the consumer (4 marks)
 - What is the effect of an increase in the consumer's income from shs 12,000 to shs 24,000 per month (4 marks)
- (b) Explain the income and substitution effect of change in the price of x, assuming that commodity x is:

- i. A normal good (4 marks)
- ii. An inferior good (4 marks)
- (c) Discuss the importance of indifference curve analysis (4 marks)

QUESTION THREE

- (a) State factors of introduction (2 marks)
- (b) Explain the meaning of mobility of factors of production. To what extent are factors of production mobile (6 marks)
- (c) Illustrate and explain the equilibrium of a producer with aid of an isoquant and isocost line (6 marks)
- (d) Using relevant diagram, describe the equilibrium for the perfectly competitive firm in the short-run and in the long run (6 marks)

QUESTION FOUR

- (a) Differentiate between
 - i. Short run and long run costs (2 marks)
 - ii. Fixed and variable costs (2 marks)
- (b) The data below shows schedule of production of a hypothetical product

Outputs (tons per week)	Total costs (kshs per ton)
0	120
1	270
2	400
3	510
4	600
5	700
6	800
7	910
8	1040
9	1200

- i. Determine the total fixed cost (2 marks)
- ii. Calculate the marginal costs and the average cost for each level of output. Are these short run or long run costs. Why? (4 marks)
- (e) Jimmy harvest and sells peas. Assume that he operate within a perfectly competitive market structure. If the current price of peas is shs 70 per tine and the short-ton marginal cost functions is $MC = 16 + 2Q$ where Q represents tins per month
 - i. What is the profit – maximizing output (4 marks)
 - ii. Calculate the estimated short-run profits (or losses) if the short-run total cost function is as follows;
 - iii. Based on the rule that a firm should produce only if it covers its variable costs of production, what should your decision be? Explain (4 marks)

QUESTION FIVE

- (a) State the main sources monopoly powers (4 marks)
- (b) Illustrate diagrammatically output levels for both profit maximizing and the loss making monopolist firm in the short run. Give brief explanation (6 marks)
- (c) Explain the measures which the government can adopt to curb the negative effect of monopoly (6 marks)
- (d) With the aid of a well labeled diagram, explain the concept of kinked demand curve in oligopoly (4 marks)