



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2023 /2024 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF
EDUCATION ARTS

&

BACHELOR OF HOTEL AND
HOSPITALITY MANAGEMENT

COURSE CODE: EDB 110/BHM 111

COURSE TITLE: INTRODUCTION TO
MICROECONOMICS

DATE: 11TH DECEMBER 2023

TIME: 9.00 TO 12.00 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

EDB 110/BHM 111

MAIN EXAM

EDB 110/BHM 111: INTRODUCTION TO MICROECONOMICS

STREAM: BED (Arts)/BHM

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE (30 MARKS)

- a) Clearly distinguish between each of the following pairs of concepts:
- i) Marginal cost and opportunity cost. (2 marks)
 - ii) Budget line and isocost line. (2 marks)
 - iii) Change in quantity demanded and change in demand. (2 marks)
 - iv) Returns to scale and economies of scale. (2 marks)
 - v) Fixed cost and variable cost. (2 marks)
- b) Suppose that the general demand and supply functions are:

$$Q = -600 + 10P$$

$$Q = 60 - 2P + 0.01M + 7PR$$

Where: Q is Quantity;

P is Price;

M is average consumer income which is Shs. 40,000;

PR is price of a related good which is Shs. 20.

- i) Identify which is the demand function and which is the supply function. Explain your answer. (2 marks)
 - ii) Compute the equilibrium price and quantity. (4 marks)
- c) Explain five factors that influences demand of maize flour around Alupe community (10 marks)
- d) The following table shows a total utility schedule for a consumer of chocolate bars

Number consumed	Total utility
0	0
1	10
2	25
3	45
4	60
5	70
6	70
7	65

Required: At what point does the consumer experience diminishing marginal utility? (4 marks)

QUESTION TWO (20 MARKS)

- a) Given a cost function $TC = 2500 + 2Q^2$
- i) Explain the variables in the above function (2 marks)

- ii) Calculate average cost and marginal cost (6 marks)
- b) Given that $\pi = TR - TC$
 Where: π = Profit, TR = Total revenue and TC = Total cost. Further, you are given that both TR and TC are dependent on output (that is, $TR = f(Q)$ and $TC = f(Q)$)
- i) Show the two conditions for profit maximization (2 marks)
- ii) Assuming a perfectly competitive market, use diagrams to show a profit-making and loss incurring firm in the short run (10 marks)

QUESTION THREE (20 MARKS)

- a) Define the following terms as used in Economics;
- a. Choices (2 marks)
- b. Rationality (2 marks)
- c. Free market economy (2 marks)
- b) Clearly discuss the four basic economic problems that concern economists in the society (8 marks)
- c) Explain any three exceptions where the law of demand is violated (6 marks)

QUESTION FOUR (20 MARKS)

- a) Define the term indifference curve (2 marks)
- b) Explain any five features of an indifference map (10 marks)
- c) Discuss determinants of price elasticity and explain problems experienced by suppliers (8 Marks)

QUESTION FIVE (20 MARKS)

- a) Define oligopoly market structure and identify its unique features (5 marks)
- b) The government of Kenya came up with a new policy on reducing prices of fertilizer in 2022 in order to make fertilizer affordable.
- i. Using well labeled diagrams explain the impact of such measures on fertilizer supply and demand in the market (7 marks)
- ii. Explain the consequences of such measure to the society (8 marks)