



MURANGA UNIVERSITY COLLEGE EXAMINATIONS: 2013/2014
FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF COMMERCE/HUMAN RESOURCE MANAGEMENT
HPS 2114/HBC 2204: INTRODUCTION TO MICROECONOMICS

DATE: 11 DECEMBER 2014

TIME: 2 HOURS

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- a) Define the following sets of terms. (10 marks)
- i) Change in supply
 - ii) Quantity Supplied
 - iii) Isocost line
 - iv) Indifference curve
 - v) Budget line
- b) The government of a developing nation has contacted your consultancy firm for professional advice on the best economic system. As a professional in the firm, advise the government on the best economic system and explain why (20 Marks)

QUESTION TWO

- a) Distinguish between own-price elasticity of demand and cross- elasticity of demand. (8 marks)
- b) Briefly discuss the factors which affect the own-price elasticity of demand. (4 marks)
- c) Discuss the usefulness of these parameters in management and economic policy decision -making. (8 marks)

(Total: 20 marks)

QUESTION THREE

- a) Distinguish between monopolistic competition from perfect competition. (8 Marks)
- b) What conditions must be met for an industry to qualify as a case of monopolistic competition? (5 Marks)
- c) Explain Oligopoly in economics terms? (7 Marks)

QUESTION FOUR

- a) Define the term "production function " (2 marks)
- b) Differentiate between economies of scale and returns to scale. (6 marks)
- c) Using the cardinalist approach of consumer behaviour, distinguish between income and substitution effects of price of a normal good. (6 marks)
- d) Explain the main characteristics of Indifference curves. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Briefly distinguish between inferior and giffen goods. (2 marks)
- b) Explain the factors that influence the supply of a commodity (6 Marks)
- c) Explain the term price control (4 Marks)
- d) Explain the importance of the measures of elasticity of demand (8 Marks)