



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBC 2111

COURSE TITLE: MICROECONOMICS

DATE: 27TH APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

QUESTION 1

- (a) With the aid of well labeled diagrams, distinguish the following sets of items;
- (i) Change in demand and change in quantity demanded (4 marks)
- (ii) Normal profits and supernormal profits (4 marks).
- (b) Outline four main features of a free market economy. (4 Marks)
- (c) Discuss the importance of the concept of elasticity of demand (10 marks)
- (d) The following economic functions have been derived by the finance Manager of XYZ Company limited.

$$Q_a = 3P^2 - 4P$$

$$Q_b = 24 - P^2$$

Where p represents price and Q is quantity

- (i) Which of the two functions represents the demand and supply curve and why? (4 marks)
- (ii) At what values of price and quantity is the market in equilibrium? (4 marks)

QUESTION 2

- a) State the ideal conditions for perfect competition in a market (5 Marks)
- b) Illustrate by use of diagrams the profit maximizing output of a firm in a perfectly competitive market structure. (5 Marks)
- c) Illustrate the three stages associated with the law of variable proportions with the aid of a well labeled diagram (10 marks)

QUESTION 3

- (a) The cost function of a firm is given as;

$$TC = 200 + 2Q^2 + 50Q$$

Where; TC is the total cost
Q is the output

Required:

- (i) The average fixed cost function (2 marks)
- (ii) The average variable cost function (2 marks)
- (b) Discuss **five** factors that may cause a shift of the supply curve in an economy (10 marks)
- (c) What are the properties of indifference curves? Outline the applications of the indifference curve analysis in the economy (6 marks)

QUESTION 4

- (a) The following data relate to a household's consumption of commodity X

Units consumed	0	10	20	30	40	50	60	70
Total utility	0	210	350	410	460	500	530	530

Plot the marginal utility curve and comment on its shape (4 marks)

- (b) Discuss the barriers to occupational mobility of labour (10 marks)
- (c) Describe the circumstances under which the concept of opportunity cost is applied in an economy (6 marks)

