



## MURANG'A UNIVERSITY COLLEGE (MRUC)

(A Constituent College of Jomo Kenyatta university of Agriculture & Technology)

SPECIAL / SUPPLEMENTARY EXAMINATIONS FOR THE

DEGREE OF BACHELOR OF BUSINESS IN INFORMATION TECHNOLOGY (BBIT)

UNIT CODE: HBT 2104

MICROECONOMICS

DATE:

TIME: 3 HOURS

### INSTRUCTIONS:

ANSWER QUESTIONS ONE AND ANY OTHER TWO QUESTIONS.

Q1. (a) Distinguish between

- (i) Positive economics and normative economics. (2 marks)
- (ii) Scarcity and choice. (2 marks)
- (iii) Opportunity cost and utility. (2 marks)
- (iv) Price floors and price ceilings. (2 marks)

(b) Using well labeled diagram, demonstrate the following concepts

- (i) Shifts and movement in the demand curve. (4 marks)
- (ii) Shifts and movement in the supply curve. (4 marks)

(c) The demand and supply functions of a commodity x are give as follows:-

$$Q_d = 20 - \frac{1}{3}P$$

$$Q_s = -15 + \frac{1}{2}P.$$

**Required;**

- (i) The equilibrium price and quantity of commodity X (6 marks)
- (ii) With the aid of a diagram, explain the impact on the equilibrium price and quantity in C (i) above of a simultaneous decrease in supply and increase in demand of commodity x. (4 marks)
- (d) Summarize the exceptions to the law of demand. (4 marks)

Q2(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) Average fixed cost function. (2 marks)
- (ii) Average variable cost function. (2 marks)
- (b) With the aid of well labeled diagrams distinguish between increasing returns to scale and decreasing returns to scale. (6 marks)
- (c) Explain the main sources of monopoly power. (10 marks)

Q3 (a) Discuss the barriers to geographical mobility of labour . (10 marks)

(b) Discuss the characteristics of indifference curves. (6 marks)

(c) Identify the salient features of a monopolistic market structure. (4 marks)

Q4 (a) A hypothetical firm has a short – run cost function as follows:

$$C = q^3 - 12q^2 + 60q \text{ where } C \text{ is the total cost}$$

q is the total output

**Required**

- (i) Derive the average cost and marginal cost functions of the firm. (4 marks)
- (ii) The profit maximizing price given that the profit maximizing output is 60 units. (4 marks)
- (b) Briefly discuss ways in which a government can influence the allocation of resources in a country. (12 marks)
- Q5 (a) Discuss the features of a free market economic system. (10 marks)
- (b) Briefly explain any *five* factors that may cause a fall in the supply of a good in the market. (10 marks)