



BACHELOR OF COMMERCE
END OF SEMESTER EXAMINATION
BFS 1104: INTRODUCTION TO MICROECONOMICS

Date: Wednesday, 10th November 2021 **Time: 2 Hours**

Instructions:

Answer FOUR questions

Answer QUESTION 1 in section A and any other THREE questions in section B

Make sure to write your ADMISSION NUMBER on the answer script

SECTION A (compulsory)

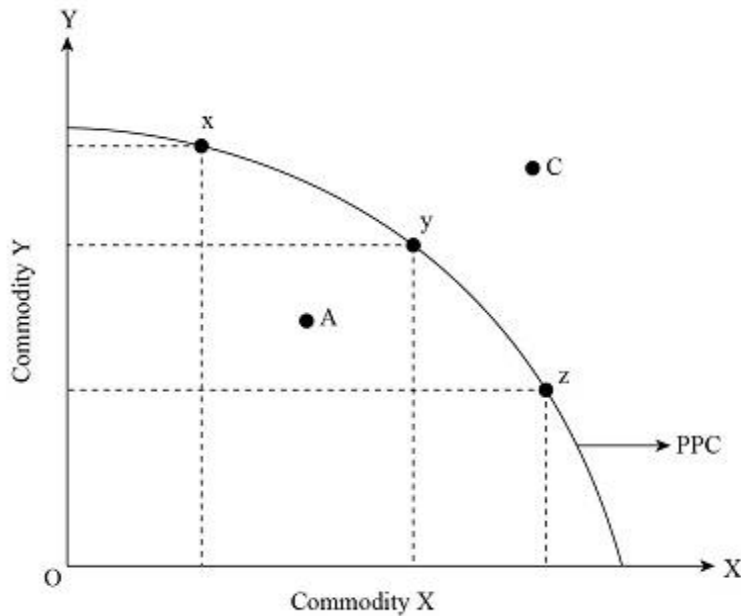
Question 1 (15 Marks)

- a) What are the three main questions that economists try to answer? **(3 marks)**
- b) What are the three main economic systems and how do they go about answering the above three main questions? **(12 marks)**

SECTION B (Answer any THREE questions)

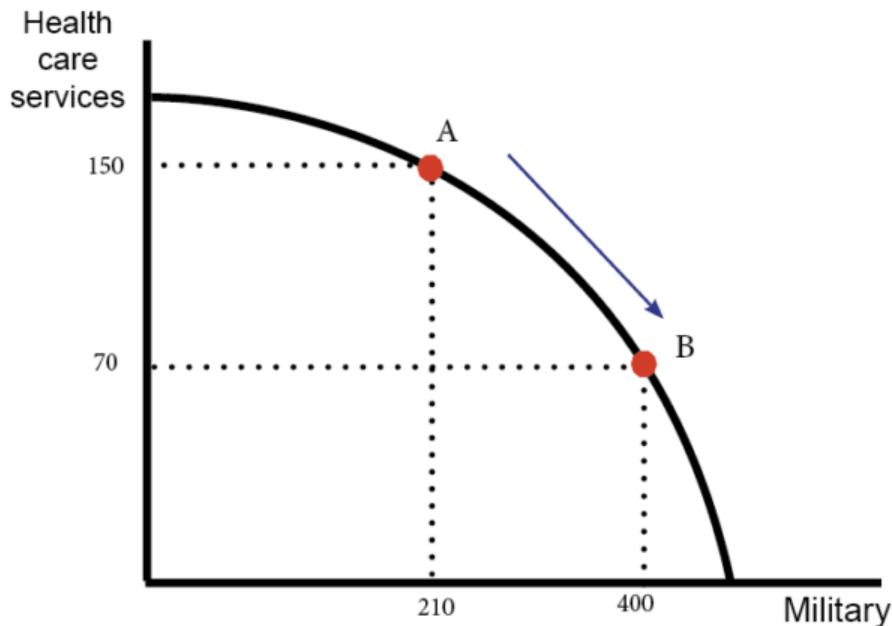
Question 2 (15 Marks)

The following is a Production Possibility Frontier for country X.



- a) Which point(s) represents technical efficiency? **(1 mark)**
- b) Which point represents technical inefficiency? **(1 mark)**
- c) Which point represents output that is unattainable? **(1 mark)**
- d) If the country was to produce at point C, what would it need to do? **(2 marks)**
- e) Why does the production possibility frontier have a negative slope? **(2 marks)**
- f) The production possibility curve is concave to the origin. What does this mean/represent? **(2 marks)**

Consider the following production possibility curve for country Y



- What is the opportunity cost of increasing military goods from 210 units to 400 units?
(2 marks)
- What is a Pareto efficient allocation of resources?
(2 marks)
- Distinguish between allocative efficiency and technical efficiency
(2 marks)

Question 3 (15 Marks)

- Define the terms demand and supply as used in economics
(2 marks)
- Distinguish between a normal, Giffen and a Veblen good
(3 marks)
- Given the following demand and supply functions of good X,
 $QD = 27 - 3p$
 $QS = -9 + 9p$
 - Calculate the equilibrium price and quantity
(4 marks)
 - Calculate the price elasticity of demand when price increases from the equilibrium price above to 5.
(4 marks)
 - Interpret the elasticity value obtained in ii) above
(2 marks)

Question 4 (15 Marks)

- Describe the principle of the invisible hand and how it works to ensure an optimal allocation of resources
(4 marks)

- b) Why does the government sometimes need to intervene in a free market rather than let the forces of demand and supply interact freely in the market? **(2 marks)**
- c) Why are firms in a perfectly competitive market referred to as “price takers”? **(2 marks)**
- d) Explain what economies of scale mean and FIVE ways in which they can accrue to a firm **(7 marks)**

Question 5 (15 Marks)

- a) “Budget cuts in the education sector can be criticized because education is a public good.” “Increases in tuition fees can be justified because education is a private good.” Discuss these two statements **(5 marks)**
- b) Discuss the role of the public sector in improving equity and equality **(5 marks)**
- c) Discuss the effects of setting up a factory which discharges untreated waste into a river taking into account both positive and negative externalities **(5 marks)**

Question 6 (15 Marks)

- a) Explain why firms in a perfectly competitive market do not enjoy super normal profits in the long-run. **(4 marks)**
- b) Monopolies use price discrimination as a means of maximizing profits.
- What is meant by price discrimination? (give an appropriate example) **(2 marks)**
 - What can cause price discrimination to fail? **(1 mark)**
- c) “Monopolistic competition provides a wide variety of products for consumers at the cost of some resource misallocation.” Discuss **(4 marks)**
- d) The following represents the cost and revenue schedule of a firm

Quantity	Price	Total revenue (TR)	Total cost	MR	MC
0	6		3		
1	6		5		
2	6		8		
3	6		12		
4	6		17		
5	6		23		
6	6		30		
7	6		38		
8	6		47		

Fill in the Total Revenue, Marginal Revenue and Marginal Cost columns and determine the profit maximizing quantity **(4 marks)**