



STRATHMORE BUSINESS SCHOOL
BACHELOR OF COMMERCE / BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BCM 1103 / BFS1104: INTRODUCTION TO MICROECONOMICS

Date: Thursday, 22nd December 2022

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Giving relevant examples, distinguish between the following terms used in economics.
 - i) Economies of scale and diseconomies of scale (3 Marks)
 - ii) Positive economics and normative economics (3 Marks)
 - iii) Merit and a demerit good (3 Marks)
 - iv) Positive and negative externalities (3 Marks)
 - v) Excess supply and excess demand (3 Marks)
- b) Using long run average costs, illustrate the ideal size of a firm (4 Marks)
- c) With the help of relevant diagram(s), distinguish between price ceiling and price floor (4 Marks)
- d) Explain the two characteristics of public goods (2 Marks)
- e) Explain why firms in a perfectly competitive market face a perfectly elastic demand curve. (2 Marks)
- f) Explain and illustrate the two conditions necessary for-profit maximization. (3 Marks)

QUESTION TWO (20 MARKS)

- a) Distinguish between the short run and long run periods in production. (2 Marks)
- b) Explain FOUR assumptions of the law of diminishing marginal returns. (8 Marks)
- c) The management of Ranchville Limited has decided to double its operations in the next two years. Explain FIVE benefits that the company may enjoy from such a decision (10 Marks)

QUESTION THREE (20 MARKS)

- a) The government has increased the minimum wage in the current budget. Using relevant diagrams, explain what effect this will have on the market equilibrium. (5 Marks)
- b) In the county of Salama, there has been a bumper harvest increasing households' income from \$3600 to \$3800. As a result, the demand for beef has increased from 60kgs to 75kgs. Calculate the income elasticity of demand for beef and interpret the answer. (5 Marks)

- c) Consider the following in a competitive market:

Demand function: $Q_s = 2P$

Supply function: $Q_d = 300 - P$

- i. Calculate the equilibrium price and quantity

(5 Marks)

- d) Consider the following demand and supply schedules for mobile phones per week

Price (\$)	8	7	6	5	4	3	2	1
Quantity demanded	6	8	10	12	14	16	18	20
Quantity supplied	18	16	14	12	10	8	6	4

- i. What is the price elasticity of supply for laptops when the price increases from \$5 to \$7? (round off your answer to 2 decimal places) **(3 Marks)**
- ii. Interpret what the value in (i) above means **(2 Marks)**

QUESTION FOUR (20 MARKS)

- a) Explain the difference between a monopolist and a firm in monopolistic competition **(4 Marks)**
- b) In a perfectly competitive market, firms are referred to as “price takers”. Explain **(2 Marks)**
- c) Explain what is meant by price discrimination and 4 ways in which a monopolist is able to separate the market for its product. **(4 Marks)**
- d) Explain why and how a monopolist leads to a loss in society welfare. **(4 Marks)**
- e) The following represents the production and cost schedule of a firm.

Quantity	Total revenue	Total cost
5	500	350
10	900	550
15	1200	675
20	1400	800
25	1500	1125
30	1500	1800
35	1400	2800

Calculate AR, MR, ATC and MC and determine the point at which the firm starts to experience diminishing marginal returns **(6 Marks)**

QUESTION FIVE (20 MARKS)

- a) Using relevant illustrations, describe the three stages of production. **(12 Marks)**
- b) Explain why the private sector might lead to an undersupply of public goods. **(4 marks)**
- c) Kiboko tea factory has acquired Majani tea plantation. Explain two advantages of this move. **(2 Marks)**
- d) Ujenzi steel factory has acquired Chuma rolling mills factory. Explain two advantages of this move. **(2 Marks)**