



BACHELOR OF FINANCIAL SERVICES
BFS 1104: INTRODUCTION TO MICROECONOMICS
END OF FIRST SEMESTER EXAMINATION

Date: Thursday, 10th November, 2022

Time: 2 Hours

Instructions:

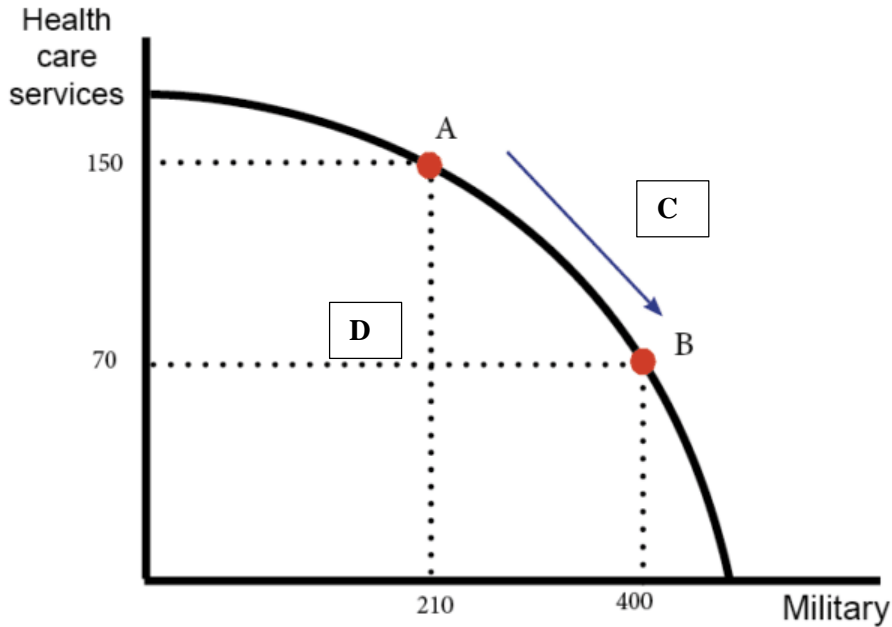
1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

Question ONE (Compulsory)

- a) Giving relevant examples, explain the meaning of the following concepts as used in economics;
 - i) Opportunity cost (2 marks)
 - ii) Marginal utility (2 marks)
 - iii) Technical efficiency (2 marks)
 - iv) Economies of scale (2 marks)
 - v) Externalities (2 marks)
 - b) Using appropriate diagrams, distinguish between individual demand and market demand (4 marks)
 - c) With the help of relevant diagram(s), distinguish between price ceiling and price floor (4 marks)
 - d) Distinguish between the short run and long run periods of production (4 marks)
 - e) Outline **FOUR** characteristics of perfect competition (4 marks)
 - f) Using appropriate diagram(s) illustrate the difference in supply elasticity in the momentary, short-run and long-run periods (4 marks)
- (Total 30 marks)**

Question TWO

The following is a Production Possibility Frontier for country X.



- Which point represents technical efficiency? (1 mark)
- Which point represents technical inefficiency? (1 mark)
- Which point represents output that is unattainable? (1 mark)
- If the country was to produce at point C, what would it need to do? (2 marks)
- What is the opportunity cost of increasing military goods from 210 units to 400 units? (2 marks)
- Why does the production possibility frontier have a negative slope? (2 marks)
- The production possibility curve is concave to the origin. What does this mean/represent? (2 marks)
- Explain THREE reasons why two or more firms merge. (3 marks)
- 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 ideal size of the firm (6 marks)

(Total 20 marks)

Question THREE

- a) 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? (4 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 (6 marks)
- e) The management of Afriscope Limited has decided to double its operations in the next two years. Explain TWO disadvantages of such a move (4 marks)

(Total: 20 marks)

Question FOUR

- a) Using appropriate examples, distinguish between vertical integration forward and vertical integration backward (6 marks)
- b) Using a diagram, illustrate and explain the cost minimization strategy of expansion of a firm (4 marks)
- c) Public goods cannot be left to be provided by the private sector. Explain (4 marks)
- d) Chemonix is a pharmaceutical company that is planning to set up its plant in Kenya. Discuss three negative and three positive externalities that could arise from this. (6 marks)

(Total 20 marks)

Question FIVE

- a) Using relevant diagrams, explain what is meant by market equilibrium and distinguish between a stable and an unstable equilibria (5 marks)
- b) 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)

c) Consider the following demand and supply schedules for laptops 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 demand for laptops when the price reduces from \$7 to \$5? (round off your answer to 2 decimal places) (3 marks)
- ii. Interpret what the value in (i) above means (2 marks)
- iii. What is the price elasticity of supply for laptops when the price increases from \$4 to \$6? (round off your answer to 2 decimal places) (3 marks)
- iv. Interpret what the value in (iii) above means (2 marks)

(Total 20 marks)