



**BACHELOR OF COMMERCE
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BCM 1103/BFS 1104: INTRODUCTION TO MICROECONOMICS**

Date: Friday, 10th December 2021

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) Scarcity (2 marks)
 - ii) Positive economics (2 marks)
 - iii) Giffen goods (2 marks)
 - iv) Externalities (2 marks)
 - v) Excess supply (2 marks)
 - b) Outline **FOUR** exemptions to the law of diminishing marginal utility (4 marks)
 - c) With the help of relevant diagram(s), distinguish between price ceiling and price floor (4 marks)
 - d) Outline **FOUR** assumptions of law of diminishing marginal returns (4 marks)
 - e) Outline **FOUR** characteristics of perfect competition (4 marks)
 - f) Explain **FOUR** determinants of elasticity of demand (4 marks)
- (Total 30 marks)**

Question TWO

- a) Using relevant diagrams, explain the **THREE** stages of production (10 marks)
- b) The management of Tritoniq 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)

(Total: 20 marks)

Question THREE

- 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 events: Scientists reveal that eating oranges decreases the risk of diabetes. At the same time, farmers use a new fertilizer that makes orange trees produce more oranges. Explain the effect of these events on the equilibrium price and quantity of oranges (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 (4 marks)

d) 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 increases from \$3 to \$6? (round off your answer to 2 decimal places) (3 marks)

ii. Interpret what the value in (i) above means (3 marks)

(Total 20 marks)

Question FOUR

a) Using an appropriate diagram, explain what is meant by a Pareto optimal allocation of resources (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 four ways in which a monopolist is able to separate the market for its product (6 marks)

d) Firms in monopolistic competition provide a wide variety of goods for consumers at the expense of resource misallocation. Explain (2 marks)

e) The following is a revenue schedule for a monopolist who produces at a constant marginal cost of 10.

Price	Quantity	TR
18	0	0
	4	64
	8	112
	12	144
	16	160
	20	160
	24	144
	28	112
	32	64
0	36	0

At what output level does the monopolist maximize its profit?

(6 marks)

(Total 20 marks)

Question FIVE

a) Explain four reasons why firms grow

(4 marks)

b) Giving appropriate examples distinguish between the two types of vertical integration

(6 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)