



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2020/2021 ACADEMIC YEAR  
FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BSc. Economics, BSc. Economics and  
Statistics & BSc. Financial Economics**

**COURSE CODE: ECO 1103  
COURSE TITLE: INTRODUCTION TO  
MICROECONOMICS**

**DATE: 27<sup>TH</sup> MAY, 2021**

**TIME: 1100 – 1300HRS**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **TWO** questions.

*This paper consists of **three** printed pages. Please turn over.*

## QUESTION ONE

- a) Clearly distinguish the following pairs of economic concepts
- i. Income and cross elasticity of demand **(2 marks)**
  - ii. Positive and Normative economic analysis **(2 marks)**
  - iii. Ceiling and floor price policy **(2 marks)**
- b) You are given the following economic function
- $$Q_1 = 500 - 4p;$$
- $$Q_2 = -100 + 2p$$
- Where, P is the market price for a particular commodity.
- i. Identify with reasons the demand and supply functions **(2 marks)**
  - ii. Compute the equilibrium price and quantity **(2 marks)**
- c) Explain five sources of monopoly power to a firm **(5 marks)**
- d) Using the cardinalist approach, explain the consumer equilibrium and show how the demand curve for a normal good is derived. **(5 marks)**

## QUESTION TWO

Consider the production data below where labour is the variable factor of production.

Labour	Total Physical Product
1	15
2	35
3	60
4	90
5	120
6	144
7	158
8	160
9	160
10	158

- a) Find the average physical product and marginal product at each level of labour. **(4 marks)**
- b) Demarcate and explain the three stages of production **(6 marks)**
- c) Draw a graphical presentation of a short run equilibrium under the monopoly market structure and show how the firm makes supernormal profits **(5 marks)**

### **QUESTION THREE**

- a) Determine the equilibrium quantities of commodities x and z for a consumer whose total utility (U) and other relevant variables are given below;

$$U = 20x - 4z^2 + 40z - x^2$$

$$\text{Income level } Y = \text{Ksh.48}$$

$$\text{Price of } x(p_x) = \text{ksh.2}$$

$$\text{Price of } z(p_z) = \text{ksh.4}$$

Show all your workings **(8 marks)**

- b) Using a well labeled diagram describe the relationship between average total cost (ATC), average variable cost (AVC) and marginal cost (MC)

**(7 marks)**

### **QUESTION FOUR**

- a) Discuss the usefulness of the concept of elasticity **(6 marks)**

- b) Given

$$\text{Demand function: } Q_d = 3550 - 266p$$

$$\text{Supply function: } Q_s = 1526 + 240p$$

- i. Determine the equilibrium market price and quantity **(4 marks)**

- ii. Using the demand for a giffen good, illustrate an unstable equilibrium

**(5 marks)**

**//END**