



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY - JULY 2015 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF DEVELOPMENT STUDIES

REGULAR PROGRAMME

SDS 102: INTRODUCTION TO MICROECONOMICS

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Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Differentiate between the terms positive and normative economics. **(6 marks)**
- b) With the aid of examples, explain capital as a factor of production. **(6 marks)**
- c) Explain the effects of a surplus and shortage in the market. **(6 marks)**
- d) In your own words, explain the economic problem and give relevant examples. **(6 marks)**
- e) What does economic efficiency mean? **(6 marks)**
- Q2. a) Describe the non-price factors that affect a consumers demand schedule. **(10 marks)**
- b) Giving examples compare and contrast the free market and command economies. **(10 marks)**
- Q3. a) Using a demand or supply diagrams, explain what happens to the curves due to the situations below.

- i A policy to encourage drinking water is introduced. **(5 marks)**
 - ii A tax is introduced on the manufacturer of cigarettes. **(5 marks)**
- b) Define and explain the key features of indifference curves. **(10 marks)**
- Q4. a) The market for bread has the following demand and supply schedule below. From this schedule;

Price	Quantity demanded	Quantity supplied
\$7	135	26
8	104	53
9	79	79
10	68	98
11	53	110
12	39	121

- i Graph the demand and supply curves. **(6 marks)**
 - ii What is the equilibrium price in this market? **(2 marks)**
 - iii What is the equilibrium quantity in this market? **(2 marks)**
- b) Explain the difference between pure competition and monopolistic competition in a market. **(10 marks)**
- Q5. a) Discuss the nature of production costs highlighting variable and fixed costs. **(8 marks)**
- b) Explain the following elasticity concepts
- i Price elasticity of demand. **(4 marks)**
 - ii Income elasticity of demand. **(4 marks)**
 - iii Cross elasticity of demand. **(4 marks)**

END

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