



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL PROGRAMME

CEC 111: INTRODUCTION TO MICROECONOMICS

Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Explain briefly the following terms:
- i Marginal product. (1 mark)
 - ii Marginal cost. (1 mark)
 - iii Marginal revenue. (1 mark)
 - iv Marginal analysis. (1 mark)
 - v Budget constraint. (1 mark)
 - vi Utility maximization. (1 mark)
 - vii Utility maximization rule. (1 mark)
 - viii Economic agents. (1 mark)
 - ix Scarcity. (1 mark)
 - x Economic interaction. (1 mark)

- xi Choice. (1 mark)
- xii Imperfect competition. (2 marks)
- b) In the demand element of the supply and demand model,
- i State the law of demand. (1 mark)
- ii List the determinants of demand for a good. (3 marks)
- c) Using suitable illustration, explain briefly the following terms;
- i Perfect elastic demand. (2 ½ marks)
- ii Perfect inelastic demand. (2 ½ marks)
- iii Competitive equilibrium model. (2 marks)
- iv Equilibrium price. (1 mark)
- v Equilibrium quantity. (1 mark)
- d) In money and banking, state;
- i The key components of monetary system. (1 mark)
- ii The key functions of money. (1 mark)
- e) List FOUR key economic basis for government activity. (2 marks)
- Q2. a) Using suitable illustrations, explain briefly the following terms;
- i A movement along the supply curve. (3 marks)
- ii A shift of the supply curve. (3 marks)
- b) Explain briefly how societies deal with the THREE basic questions. (7 marks)
- c) Explain in detail the term “factors of production” (7 marks)
- Q3. a) List TWO important principles of consumer behavior. (4 marks)
- b) Using suitable illustrations, explain briefly the terms
- i Consumer Surplus. (3 marks)

ii Producer Surplus. **(3 marks)**

c) Consider the following information on supply and demand model of the world tea market.

Price per kilo (Ksh)	Quantity supplied	Quantity demanded
26.60	1,500	525
25.90	1,000	600
25.20	700	700
24.50	600	900
23.80	550	1,200

Required:

i Is there a shortage or a surplus when the price is Kshs 26.60?

(3 marks)

ii What is the market equilibrium of the world tea market? **(2 marks)**

iii Graph the supply curve and the demand curve of the world tea market. **(2 marks)**

d) List the THREE elements of the supply and demand model.

(3 marks)

Q4. a) Explain briefly the term “ market failure” **(2 marks)**

b) Using suitable illustration, explain briefly the term “balance sheet of commercial bank” **(4 marks)**

c) In relation to the oligopoly market structure, explain briefly the following terms;

i Interdependent behavior. **(2 marks)**

ii Collusion. **(2 marks)**

iii Pricing behavior. **(2 marks)**

iv Price leadership. **(2 marks)**

- d) Using suitable illustrations, explain briefly the key stages of production. **(6 marks)**

END