THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL   PROGRAMME

CEC 111: INTRODUCTION TO MICROECONOMICS

Date: JULY 2016	**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)**

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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)   Explain briefly THREE ways in which government may affect the supply of a good   **(4 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.

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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, kshs 23.80? **(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)   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)**

b)   Using suitable illustration, explain briefly the key stages of production. **(6 marks)**

c)   Using suitable illustrations explain briefly the following

       i   Do price ceilings cause shortages or surpluses?   **(3 marks)**

       ii   Do price floors cause shortages or surpluses?   **(3 marks)**

END

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