



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

REGULAR PROGRAMME

CED 071: PRINCIPLES OF MICROECONOMICS

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Date: JULY 2016

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Briefly explain the following terms
- i Scarcity and choice
 - ii Law of demand
 - iii Price elasticity of demand
 - iv Short run production period **(8 marks)**
- b) Suppose $P = 20 - 0.1Q$ and $P = 5 + 0.05Q$
- i Find the equilibrium price (P^*) and quantity (Q^*) **(4 marks)**
 - ii Explain what is likely to happen if the existing price is below or above the equilibrium price (p^*) **(4 marks)**
- c) Briefly explain the long run equilibrium position of a perfect competition market. **(6 marks)**
- d) Explain FOUR determinants of price elasticity of demand. **(8 marks)**
- Q2. a) Explain THREE basic decisions that production units must make. **(6 marks)**
- b) How do they achieve the above decisions? **(3 marks)**
- c) Define the term long run production period and explain how costs of production affect that period. **(11 marks)**

- Q3. a) Distinguish between the following terms
i Partial and general equilibrium
ii Input market and product market
iii Monopoly and oligopoly
iv Perfect market and imperfect market **(12 marks)**
- b) Using suitable illustrations explain the circular flow of economic activity in the input markets. **(8 marks)**
- Q4. a) Explain the TWO types of market disequilibrium **(6 marks)**
- b) Distinguish between cardinal and ordinal utility. **(6 marks)**
- c) Explain FOUR determinants of demand for education in a country. **(8 marks)**

END