



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

**MAY - JULY 2016 TRIMESTER**

**FACULTY OF ARTS AND SOCIAL SCIENCES**

**DEPARTMENT OF DEVELOPMENT STUDIES**

**REGULAR PROGRAMME**

**SDS 102 / ACS 205: INTRODUCTION TO MICROECONOMICS**

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**Date: JULY 2016**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Describe the following terms
- i Economics (2 marks)
  - ii Micro-economics (2 marks)
  - iii Ceteris paribus (2 marks)
- b) Explain the key features of a monopolistic competition market from a monopoly. (10 marks)
- c) Citing relevant examples, explain the concept of a shortage and surplus in the market. (6 marks)
- d) The demand and supply equation for a given commodity is given below  
Demand =  $1100 - 100p$  Supply =  $400 + 250p$  (where  $p$  = price)
- i Calculate the equilibrium price (4 marks)
  - ii Calculate the equilibrium quantity (4 marks)
- Q2. a) In your own words explain the economic problem and its relationship to choice and opportunity cost. (6 marks)
- b) Describe the THREE factors of economic efficiency. (6 marks)

- c) Distinguish between ordinalist and cardinalist views on utility. **(4 marks)**
- d) Explain the budget constraint. **(4 marks)**
- Q3. a) Using a diagram explain perfect elasticity of demand. **(4 marks)**
- b) Explain the concept of diminishing marginal utility. **(4 marks)**
- c) Explain the THREE key characteristics of indifference curves. **(6 marks)**
- d) Describe what happens to demand in the following situations.
- i Price of complement good x goes up what happens to complement good y? **(2 marks)**
- ii Price of substitute good x goes up what happens to substitute good y? **(2 marks)**
- iii Income goes up what happens to normal goods and inferior goods? **(2 marks)**
- Q4. a) Describe variable and fixed costs in production. **(4 marks)**
- b) Discuss the mixed economy illustrating how it answers the three basic questions that every nation must address. **(8 marks)**
- c) Consider the situations below and answer the questions that follow
- i In a market the price of tomatoes which are one of the ingredients for making pizza increases. Identify the determinant of supply affected. **(2 marks)**
- ii Indicate the effect on supply and show the effect in a curve. **(6 marks)**
- Q5. a) Discuss free and scarce goods. **(4 marks)**
- b) Using relevant examples explain production in the short run and in the long run. **(6 marks)**

- c) Suppose that the price of fries at your college cafeteria is determined by the market forces. Currently demand and supply schedule are as follows

\$ price	Quantity demanded	Quantity supplied
\$5	100	60
10	80	60
15	60	60
20	40	60
25	20	60

From this schedule

- i Graph the demand and supply curves in the same diagram. **(6 marks)**
- ii Explain what is unusual about the supply curve. **(2 marks)**
- iii What is the equilibrium price and quantity in this market. **(2 marks)**

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