



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST - DECEMBER 2013 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

EVENING PROGRAMME

CEC 111: INTRODUCTION TO MICROECONOMICS

Date: DECEMBER 2013

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) State the key assumption in prediction. (1 mark)
- b) Explain briefly the following terms:
- i) Scarcity (2 marks)
 - ii) Choice (2 marks)
 - iii) Economic interaction (2 marks)
- c) 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)
- d) Using suitable illustrations, explain briefly the following terms:
- i) Perfectly elastic demand. (2 marks)
 - ii) Perfectly inelastic demand. (2 marks)
- e) Explain briefly the following terms:
- i) Budget constraint (1 mark)
 - ii) Utility maximization (1 mark)

- iii) Utility maximization rule (1 mark)
- f) 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)
- g) Explain briefly the following terms:
- i) Imperfect competition (1 mark)
 - ii) Competitive equilibrium model (1 mark)
 - iii) Equilibrium price (1 mark)
 - iv) Equilibrium quantity (1 mark)
- h) In money and banking, state:
- i) The key components of monetary system. (1 mark)
 - ii) The key functions of money (1 mark)
- i) List four key economic basis for government activity. (2 marks)
- Q2. a) Explain in detail the term “factor of production”. (7 marks)
- b) Explain briefly how societies deal with the three basic questions. (7 marks)
- c) 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)
- Q3. a) List the **THREE** elements of supply and demand model. (2 marks)
- b) Consider the following information on supply and demand model of the world tea market (in billion kilos).

Price per kilo (Kshs.)	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 surplus when the price is Kshs. 26.60? What about at 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. **(3 marks)**
 - c) List **TWO** important principles of consumer behaviour. **(4 marks)**
 - d) Using suitable illustrations, explain briefly the terms:
 - i) Consumer surplus **(2 marks)**
 - ii) Producer surplus **(2 marks)**
- Q4. a) Using suitable illustration explain briefly the key stages of production. **(6 marks)**
- b) In relation to oligopoly market structure, explain briefly the following terms:
 - i) Interdependent behaviour **(2 marks)**
 - ii) Collusion **(2 marks)**
 - iii) Pricing behaviour **(2 marks)**
 - iv) Price leadership **(2 marks)**
- c) Using suitable illustration, explain briefly the term “balance sheet of a commercial bank”. **(4 marks)**
- d) Explain briefly the term “market failure”. **(2 marks)**

END