



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL PROGRAMME

CEC 111: INTRODUCTION TO MICROECONOMICS

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Explain briefly the following terms
1. Marginal product (1 mark)
 2. Marginal cost (1 mark)
 3. Marginal revenue (1 mark)
 4. Marginal analysis (2 marks)
 5. Budget constraint (1 mark)
 6. Utility maximization (1 mark)
 7. Utility maximization rule (1 mark)
 8. Economic agents (1 mark)
 9. Scarcity (1 mark)
 10. Economic interaction (1 mark)
 11. Choice (1 mark)
 12. Imperfect competition (2 marks)
- b) In the demand element of the supply and demand model
1. State the law of supply (1 mark)
 2. List the determinants of supply for a good (3marks)
- c) Using suitable illustrations, explain briefly the following terms
1. Perfect elastic demand (2 ½ marks)
 2. Perfectly inelastic demand (2 ½ marks)
 3. Competitive equilibrium model (2 marks)
 4. Equilibrium price (1 mark)
 5. Equilibrium quantity (1 mark)

- d) Explain briefly three ways in which government may affect the supply of a good. **(4 marks)**
- Q2. a) In relation to Oligopoly market structure, explain briefly the following terms:
1. Interdependent behaviour **(2marks)**
 2. Collusion **(2marks)**
 3. Pricing behaviour **(2marks)**
 4. Price leadership **(2marks)**
- b) Using suitable illustration, explain briefly the key stages of production. **(6marks)**
- c) Using suitable illustrations, explain briefly the following:
1. Do price ceilings cause shortages or surpluses? **(3marks)**
 2. Do price floors cause shortages or surpluses? **(3marks)**
- Q3. a) List two important principles of consumer behaviour **(4 marks)**
- b) Using suitable illustrations, explain briefly the terms
1. Consumer surplus **(3marks)**
 2. Producer surplus **(3marks)**
- c) Consider the following information on supply and demand model of the world tea market.

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 to:

1. Is there a shortage or a surplus when the price is: Kshs 26.60?
Kshs 23.80 **(3marks)**
 2. What is the market equilibrium of the world tea market? **(2marks)**
 3. Graph the supply curve and the demand curve of the world tea market **(2marks)**
- d) List the three elements of the supply and demand model. **(3marks)**
- Q4. a) Using suitable illustrations, explain briefly the following terms:
1. Movement along a demand curve **(3marks)**
 2. Shift of the demand curve **(3marks)**

- b) Explain briefly how societies deal with the three fundamental questions of What, How, and For Whom. **(7 marks)**
- c) Explain in detail the term 'factors of production' **(7 marks)**

END