



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**  
**SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO 110

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

EXAMINATION DURATION: 3 HOURS

**DATE: 17/04/18**

**TIME: 09.00-12.00 PM**

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### INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of **THREE (3)** printed pages

*please turn over*



**QUESTION ONE (COMPULSORY)**

- (a) Illustrate using examples the difference between monopoly market and monopolistic market [4 marks]
- (b) Clearly distinguish between each of the following pairs of concepts
  - i. Diminishing marginal utility; Diminishing marginal rate of substitution [3 marks]
  - ii. Law of variable proportions; Law of returns to scale [3 marks]
  - iii. Fixed costs; Variable costs [3 marks]
  - iv. Monopoly market structure; Monopolistic market structure [3 marks]
- (c) Briefly distinguish between normal, inferior and giffen goods. [4 marks]
- (d) Explain the difference between microeconomics and macroeconomics. [5 marks]

**QUESTION TWO**

- (a) With the help of economic tools where possible, briefly explain the meaning of the following terms.
  - i. Consumer equilibrium [3 marks]
  - ii. Marginal rate of technical substitution [3 marks]
  - iii. Pareto efficiency [3 marks]
- (b) By use of an example, illustrate the expansion path of a firm in the short run. [6 marks]

**QUESTION THREE**

(a) A shoe company produces specially designed shoes. The demand trend for the shoe is as follows:-

Price KSh	Quantity of shoes demanded (units)
1500	200
2000	100



- i. With reasons, determine the type of elasticity of demand. **[2 marks]**
  - ii. Explain the concept of partial equilibrium **[4 marks]**
  - iii. Calculate the elasticity of demand and interpret it **[4 marks]**
- (b) By using edge worth box to explain the concept of general equilibrium **[5 marks]**

#### **QUESTION FOUR**

- (a) Compare and contrast the cardinalist and ordinalist theories of consumer behavior. **[7 marks]**
- (b) Discuss the concept of long run equilibrium of a firm **[8 marks]**

#### **QUESTION FIVE**

- (a) By use diagrams illustrate different properties of isoquants. **[6 marks]**
- (b) Suppose that a consumer consumes two goods X and Y. Suppose further that X is a normal good and that the price of good X increases. With the aid of a well labeled diagram explain how the quantity of demand of good X will change, clearly isolating the income and substitution effects. **[9 marks]**

