



MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR (A,R&E)

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE OF Bsc. IN PROJECT MANAGEMENT & ENTREPRENEURSHIP

COURSE CODE: BPM/BSE 112

COURSE TITLE: APPLIED ECONOMICS

DATE: 13TH DEC, 2022

TIME: 9.00 AM. – 12.00 NOON

INSTRUCTION TO CANDIDATES

THIS PAPER CONSISTS OF (3) PRINTED PAGES

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SEE INSIDE

BPM/BSE 112: APPLIED ECONOMICS

INSTRUCTIONS: Answer Question **ONE** And Any Other **THREE** Questions

QUESTION ONE

- a) A basic assumption about consumers in microeconomics is that they have preferences over different baskets of goods. Explain the concepts “preferences” “preference order” and “basket of goods” **(10 MARKS)**
- b) Distinguish between a normal good, an inferior good and a Giffen good. Use indifference curves to illustrate your answer **(6 MARKS)**
- c) Outline the main determinants of quantity demanded and quantity supplied, and explain how these interact to determine the market price. **(4 MARKS)**
- d) Derive the firm's supply curve from the firm's marginal cost curve and the industry supply curve from the supply curves of individual firms. **(5 MARKS)**

QUESTION TWO

- a) Explain consumer preferences using concepts related to utility, including total utility and marginal utility; **(8 MARKS)**
- b) Explain when a firm will shut down in the short run and when it will operate even if it is incurring economic losses. **(7 MARKS)**

QUESTION THREE

- a) Explain the perceived demand curve for a perfect competitor and a monopoly **(7 MARKS)**
- b) What does the sign of the cross-price elasticity of demand between two goods tell us about the nature of the relationship between those goods? **(8 MARKS)**

QUESTION FOUR

- a) explain how the long-run average cost curve relates to economies and diseconomies of scale; and use product and cost curves to analyze how a producer's marginal returns are increasing, diminishing, or negative **(8 MARKS)**
- b) explain the characteristics of the model of perfect competition in the short-run and the long-run. **(7 MARKS)**

QUESTION FOUR

- a) explain the characteristics of an oligopoly and how it compares to other competitive and non-competitive models **(10 MARKS)**
- b) Monopoly has no supply curve. Discuss this statement with appropriate illustration. **(5 MARKS)**

QUESTION FIVE

- a) Both short-run and long-run average cost curves may be U-shaped, but the explanations for their respective shapes are quite different. Explain this statement.

QUESTION SIX

- a) Define economies of scale and explain why they might arise. Define diseconomies of scale and explain why they might arise. (7 MARKS)
- b) How does the kinked demand curve explain price rigidity in oligopoly? What are the shortcomings of the kinked-demand model? (5 MARKS)

