MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC AFFAIRS, RESEARCH & EXTENSION

UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FIRST YEAR END OF SEMESTER IV EXAMINATIONS

EXECUTIVE MBA PROGRAMME

EXAM CODE:-   **ECO 110**

COURSE TITLE:-   **INTRODUCTION TO MICRO-ECONOMICS**

DATE:- 22ND SEPTEMBER, 2014   **TIME:-** 2.00P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

  ➢ SEE INSIDE.

THIS PAPER CONSISTS OF (2) PRINTED PAGES   PLEASE TURN OVER

ECO 110: INTRODUCTION TO MICROECONOMICS

ANSWER ANY THREE QUESTIONS

QUESTION ONE

(a)   Discuss how the price mechanism allocates resources in a free market system

(8 marks)

(b)   Explain why a monopolistic competitor's equilibrium leads to economic inefficiency relative to a perfect competitor   **(12 marks)**

QUESTION TWO

(a)   Using the ordinal utility theory, explain how the consumer attains maximum level of satisfaction, assuming that he purchases two commodities X and Y**(12 marks)**

(b)   Explain how the following curves are derived :-
   (i)   The Engel Curve   **(4 marks)**
   (ii)   The Demand Curve   **(4 marks)**

QUESTION THREE

(a)   Define the term "Production Function"   **(5 marks)**

(b)   State the law of diminishing marginal returns. What are the conditions for this to apply? Does this law apply to all kinds of industries?   **(15 marks)**

QUESTION FOUR

(a)   State and explain the equi-marginal utility principle   **(10 marks)**

(b)   Suppose a demand schedule is given as follows:

Price (Ksh.)	Quantity
100	100
80	200
60	300
40	400
20	500
0	600

   (i)   Find the elasticity for the fall in price from 80 to 60   **(4 marks)**
   (ii) Calculate the elasticity for the increase in price from 60 to 80 **(4 marks)**
   (iii) Why is the coefficient in (i) different from that in (ii)   **(2 marks)**

QUESTION FIVE

Explain clearly the following economic concepts:-

(a)	Isoquant and Isocost curves	**(4 marks)**
(b)	The law of diminishing marginal rate of substitution	**(3 marks)**
(c)	The long-run average total cost curve	**(3 marks)**
(d)	The Kinked Demand Hypothesis	**(5 marks)**
(e)	Marginal Product, Average Product and Marginal Cost	**(5 marks)**