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(*University of Choice*)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN EXAMINATION

UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE
OF
BACHELOR OF SCIENCE IN ECONOMICS/ BACHELOR OF MATHEMATICS AND ECONOMICS

COURSE CODE: ECO 101

COURSE TITLE: INTRODUCTION TO MICROECONOMICS

DATE: THURSDAY 22/12/2022   TIME: 8:00 -10:00

INSTRUCTIONS TO CANDIDATES

ATTEMPT QUESTION **ONE** AND ANY OTHER **TWO**

TIME: 2 Hours
MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

QUESTION ONE

a) Describe the following concepts with the use of clear diagrams:
  i.   Income demand curve
  ii.   Market equilibrium
  iii. Production possibility curve
  iv.   Consumer surplus   (20 marks)

b) With the use of examples, explain how government can intervene to correct emerging market failures and economic shocks in a transitioning economy.
(10 marks)

QUESTION TWO

a) With the use of a well-labeled diagram, describe the key factors determining the supply of fuel in Kenya.
(10 marks)

b. Given a price reduction of fuel of 10% leading to a fuel shortage of 30% in Kenya, calculate the price elasticity of supply and suggest ways in which the Government can intervene to stabilize fuel prices (10 marks)

QUESTION THREE

a. With the use of relevant examples, describe the economic advantages enjoyed by large multinational firms in Kenya.   (8 marks)

b. Describe the key properties of isoquants and show, using a clear diagram, how a firm can achieve equilibrium in the long-run.   (12 marks)

QUESTION FOUR

a.The cost function of a firm is C (Q) = f(FC, VC) , where C (Q) is unit cost x quantity produced, FC is fixed costs and VC is variable costs. If FC =3 and VC= 0.5Q, find total costs, average costs and marginal costs of the firm.   (6 marks)

b. Explain, using practical examples, how firms under monopolistic competition differentiate their products and illustrate the short- run equilibrium of a firm in this industry   (14 marks)

QUESTION 5
Given the following utility schedule for bottled water

No of units	0	1	2	3	4
Total utility	-	5	7	6	4

  a) Calculate Marginal utility for each level of consumption   (5 marks)
  b) Use the data to illustrate diminishing marginal utility and derive the demand curve for bottled water   (10 marks)

Mention the limitations of using marginal utility theory to explain consumer behavior (5 marks