CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIBM 0131: PRINCIPLES OF MICROECONOMICS

STREAMS: DIBM   **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 30/08/2023   **8.30 A.M – 10.30 A.M.**

INSTRUCTIONS
- Answer question ONE and any other TWO.
- Do not write anything on the question paper.

QUESTION ONE

1a) Write short notes on the meaning of the following economic terms;   (6marks)

    I.   Normal goods
    II.   Veblen goods
    III.   Inferior goods

 b) Discuss the two approaches to the study of economics.   (4 marks)

 c) Differentiate between cardinal utility and ordinal utility.   (2marks)

 c) With the aid of relevant examples, discuss 3 exemptions to the law of demand. (6marks)

 d) Given the following function;

$$Q_1 = 7100 - 532p$$

$$Q_2 = 3052 + 480p$$

    I.   State the demand and supply functions respectively.   (2 marks)

    II.   Compute the equilibrium market price and quantity.   (4 marks)

 e) With criticisms, explain the wealth definition of economics.   (2marks)

f) Using diagrams, distinguish between movement along the supply curve and a shift of the supply curve. (4 marks)

QUESTION TWO

a) Discuss the exemptions to the law of demand. (10marks)

b) b) With the aid of a well labeled diagram, discuss the stages of production and highlight the best stage for a rational producer. (10marks)

QUESTION THREE

a) Consider the following function:

TC= 2560 + 200 Q – 20Q^2 + Q^3

iFind the average fixed cost when the output(Q) is 20 units. (2 marks)

ii Determine the total and average costs at the level of (10 units). (4 marks)

iii What is the level of marginal cost at the level of 6 units of production. (4 marks)

b) Explain giving relevant examples how the following factors influence quantities supplied in an economy. (10 marks)
   (i)   Weather conditions.
   (ii)   Cost of production
   (iii)   Subsidies
   (iv)   Objectives of the firm
   (v)   Taxation policy of the government.

QUESTION FOUR

(a) The current equilibrium price for maize flour is Ksh.230 per packet. Suppose the government put a maximum price of Ksh.120, explain with illustration the consequences of this action. (10 marks)

(b) Discuss the characteristics of a perfect competitive market. (10 marks)