PAN AFRICA CHRISTIAN UNIVERSITY

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END OF TRIMESTER EXAMINATION

DEPARTMENT: BUSINESS
COURSE CODE: BUS1313/BCM101
COURSE TITLE: PRINCIPLES OF MICROECONOMICS

EXAM DATE:

TIME: 3HRS

INSTRUCTIONS
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- Answer FOUR questions **ONLY, Question one is compulsory**

QUESTION ONE(COMPULSORY)

a) Assume the market demand and supply functions for coffee are given by:

Demand: $Qd=100-2P$

Supply: $Qs=20+3P$

Find the equilibrium,

i) **Price and** **(2mks**
ii) **Quantity**. (2mk)

b) Suppose the price of coffee increases by 20%, leading to a 10% decrease in the quantity demanded. At the same time, the supply of coffee increases by 15% due to favorable weather conditions.
c) Calculate the price elasticity of demand (PED). (2mks)
d) Calculate the price elasticity of supply (PES) (2mks)

e) Explain the effect of these two changes on the equilibrium price and quantity. (2mks)

QUESTION TWO

a) Explain the following market structures

i. Pure oligopoly (2mks)

ii. Differentiated oligopoly (3mks)

b) With relevant examples, describe the following theories as used in economics

i. Law of variable proportions (2mks)

ii. Law of returns to scale (3mks)

QUESTION THREE

a) Describe the law of diminishing returns as used in production theory (4marks)

b) The law of demand doesn't apply to all goods. Explain (6 marks**)**

QUESTION FOUR

A consumer has a budget of Ksh100 and spends it on two goods: apples and oranges. The price of an apple is ksh2, and the price of an orange is ksh4.

(a) Formulate the consumer's budget constraint equation. (4mks)

(b) If the consumer decides to buy 20 apples, how many oranges can they afford? (6mks)

QUESTION FIVE

a) With the aid of a diagram, demonstrate the following terms as used in economics

i. Price Floor (3marks)

ii. Price Ceiling (3marks)

b) Discuss the concept of Breakeven point in economics (4marks**)**

QUESTION SIX

A consumer consumes two goods: bread and milk. The marginal utility of bread (MU_B) is 10, and the marginal utility of milk (MU_M) is 5. The price of bread is ksh2, and the price of milk is ksh1.

(a) Prove or otherwise whether this consumer is maximizing utility (5mks)

(b) If not, explain what should the consumer do (5ks)