KENYATTA UNIVERSITY

EXAMINATION FOR THE DEGREE OF

BACHELOR OF SCIENCE IN CONSTRUCTION MANAGEMENT

BRE 105: MICRO ECONOMICS

1ST SEMESTER 2021/2022 **TIME: 2Hours**

INSTRUCTIONS:

Answer Question ONE and any other TWO Questions

Question One

(a) Explain the Production possibility frontier as used in micro economics. (4 marks)

(b) Discuss any five factors that influence the elasticity of supply of residential building in Kenya. (10 marks)

(c) Assume a consumer spends all this income in the purchase of two goods X and Y whose prices are Shs. 30 and Shs. 20 per unit respectively. The consumer's monthly income is Shs. 12,000. He is satisfied with various combinations of X and Y but prefers to spend his income in equal proportions on the two commodities, that is, at a ratio of 1:1 to maintain his level of satisfaction.

Required:

Using clearly labeled diagrams:

(i) Show the relevant budget line and indifference curves indicating the equilibrium position of the consumer. (4 marks)

(ii) Explain the effect of an increase in the consumer's income from Sh. 12,000 to Shs. 24,000 per month? (3 marks)

(d) A monopoly firm is faced with the following demand function $P = 13 - 0.5Q$

The Marginal Cost function for the firm is given by $3 + 4Q$ and the total fixed cost is 4.

Determine:

(i) The profit maximizing output (2 marks)

(ii) The level of supernormal profit if any (4 marks)

(iii) The output level at the break-even point (2 marks)

Question Two

(a) Discuss the Importance and Applicability elasticity in real estate industry. (8 marks)

(b) Differentiate between each of the following terms:

   (i) An Engel Curve and A Demand Curve (2 marks)

   (ii) An income effect and a substitution effect (2 marks)

   (iii) Inferior Good and Giffen good (2 marks)

(c) Discuss 4 sources of monopoly power. (6 marks)

Question Three

(a) Discuss the law of diminishing marginal utility (4 marks)

(b) Illustrate and clearly explain the nature of indifference curves for perfect substitute and for complementary goods. (6 marks)

(c) Explain the property of convexity to the origin of an indifference curve. (3 marks)

(d) Using the cardinalist approach of consumer behavior, distinguish between income and substitution effects of a price rise for a normal good. (6 marks)

Question Four

(a) Explain the Law of diminishing returns as applied to production functions. (3 marks)

(b) Explain any three characteristics of a planned market system. (6 marks)

(c) Explain the determinants of supply factors of production. (6 marks)

(d) Explain any three assumptions of Consumer Preference. (5 marks)

Question Five

(a) Using a well labeled diagram, show and explain why in a perfectly competitive market structure, when the marginal revenue equals marginal revenue equals marginal cost, this is only a necessary but not sufficient condition for profit maximization. (6 marks)

(b) Explain the salient features of a monopolistic competition market model. (6 marks)

(c) Using an appropriate diagram, illustrate and explain why prices are sticky in oligopoly markets. (8marks)