KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF ARTS (PUBLIC POLICY AND ADMINISTRATION)

APP 800: MICROECONOMICS FOR PUBLIC POLICY

DATE: TUESDAY 8TH DECEMBER, 2015 **TIME: 5.30 P.M. - 8.30 P.M.**

INSTRUCTIONS:

Answer question ONE (COMPULSORY) and any other THREE questions

QUESTION 1

a) Explain what is meant by "what to produce" and why it is a problem in every society. (5 marks)

b) Consider the production possibility frontier (PPF) schedule on the table below,

Alternative Points	Units of good x	Units of goods Y
A	0	10
B	1	8
C	2	6
D	3	4
E	4	2
F	5	0

i. Plot the PPF from the data above. (1 mark)

ii. On the same figure plot point G referring to 9 units of Y and 3 units of X and point H referring to 5 units of Y and 2 units of X. (1 mark)

iii. What does pOints D, G and H show? (3 marks)

iv. Define marginal rate of transformation (2 marks)

v. From the PPF above, what is the opportunity cost of producing 1 unit of good X? (1 mark)

vi. Using the above PPF show the effects of depletion of a country's resources and increase thereof. (3 marks)

c) 'An increase in price reduces quantity demanded while a fall in demand reduces price'. A non Economist might find this statement contradictory. As an economic student, explain the apparent contradiction. (4 marks)

d) Differentiate between the following paired concepts:

i. Opportunity cost and scarcity (2 marks)

ii. Monopoly and monopolistic competition (2 marks)

iii. Demand function and production function (2 marks)

iv. Marginal product and marginal utility (2 marks)

v. Indifference curve and Isoquant (2 marks)

QUESTION 2

a) Using suitable examples distinguish between perfect competition and monopoly markets. (5 marks)

b) (i) Taking an example of a perfectly competitive market given above, show graphically and explain how price-output determination is achieved in the short-run bearing in mind the underlying assumptions. (10 marks)

(ii) Explain whether the situation in 3b(i) will prevail in the long-run. (5 marks)

QUESTION 3

a) Distinguish between fixed costs and variable costs. (2 marks)

b) The data below shows tabulation on the production of a hypothetical product.

OUTPUT (UNITS)	TOTAL COST (KSHS)
0	25
1	32
2	38
3	42
4	48
5	58
6	67
7	78
8	98

i. Plot above information in the diagram and answer the following questions.

ii. Using the above data, determine:

- Total fixed cost (2 marks)
- Average variable cost when output equals 6 units (3 marks)
- Marginal cost of the third unit of output (3 marks)

c) (i) Distinguish between economies of scale and diseconomies of scale. (5 marks)

(ii) What factors cause economies of scale and diseconomies of scale. (5 marks)

QUESTION 4

a) The following economic function have been derived by the Revenue Manager of Kenya Coffee Limited:

$$Q_a = 3p^2 - 4P$$

$$Q_b = 24 - P^2$$

Where P represents price and Q is quantity.

Required:

i. Which of the two functions could represent a demand curve and a supply curve. Why? (4 marks)

ii. At what values of price and quantity is the market in equilibrium? (6 marks)

b) Explain briefly the assumption made under the cardinal approach. (5 marks)

c) Briefly explain the meaning of;

i. Return to scale (2 marks)

ii. Law of variable proportions (3 marks)

QUESTION FIVE

a) Giving examples explain the various economies of scale that a firm enjoys. (5 marks)

b) 'The supply of goods and services in a market is a function of many factors'. Discuss **six** such factors. (6 marks)

c) By use of a relevant illustration, explain the stages of production. (9 marks)