



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)