



OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2018 /2019 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF EDUCATION

COURSE CODE:EDB 101

COURSE TITLE: PRINCIPLES OF MICROECONOMICS

DATE:10/12/2018

TIME: 9.00am-12.00 pm.

INSTRUCTION TO CANDIDATES

- **SEE INSIDE**

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

EDB 101 PRINCIPLES OF MICROECONOMICS

STREAM: EDUCATION

DURATION:3HOURS

INSTRUCTIONS TO CANDIDATES

- i. Answer three questions. Question one is compulsory
- ii. Do not write on the question paper

Question One

- a) Discuss 'choices', 'opportunity cost' in relation to economics. (5marks)
- b) Enunciate on the meaning of economics and its relationship between objectives and rationality. (5marks)
- c) Give an example of a rational decision you have ever made while you are stuck between two or more choices. (5marks)
- d) What is the difference between marginal utility and total utility? (5marks)
- e) There is negative relationship between two goods in an indifference combination. True or false? Explain. (5marks)

Question Two

- a) The National government gave a boost to the housing sector by building 2 million units of low -cost housing estates in each county for national workers. There is zero down-payment on acquisition and monthly installments payment by buyers. What will happen to demand curves of housing in the country? (10mks)
- b) "Drought affected livestock in busia county" was a headline in the news. In your own opinion what will happen to livestock prices illustrating using a diagram? (10mks)

Question Three

- a) You have decided to buy a tooth paste but need to make a choice between Close-up whose price is slightly high and Dabur Herbal tooth-paste. You discovered that three third of the customers that comes into the shop where you are shopping are visiting Dabur Herbal tooth -paste's shelf and you decided to buy Dabur Herbal. Is Close -up and Dabur Herbal substitute or complement? How will this customers' decision affect the demand curve? (10marks)
- b) Household is a decision-making unit in the economy. Explain. (5marks)

- c) Describe what flows from the firm to the household and what flows from the households to the firms in the circular flow? (5marks)

Question Four

- a) Differentiate commodities and demand for commodities. (5marks)
- b) What other factors can affect quantity demanded in the market? (5marks)
- c) Explain how income effects and substitution effects can affect the quantity demanded. (5marks)
- d) Explain the factors that cause a shift of the demand curve (5mks)

Question Five

- a) Farmers in a country usually produced 100,000 bushels of soya beans per year at a market price of #50. The demand for this year is 150,000; this shortage led to a rise in price from #50 to #90. At this price, the demand and supply intersects. The number of unit sold at the new price was 125,000 bushels. What is the equilibrium price and units? (10mks)
- b) Explain 'implicit or opportunity cost'. Give real life example (5marks)
- c) By use of illustration describe where demand and supply usually meet? (5marks)

