UNDERGRADUATE EXAMINATION YEAR JULY/ 2024

FACULTY OF SOCIAL SCIENCES, ARTS AND HUMANITIES

BMC/BSWASA/DJ

EXAMINATION: INTRODUCTORY ECONOMICS **CODE:** DVS 1103B/D

Duration: 3 hours

INSTRUCTIONS:

The examination comprises two sections section I and section II

Section I is compulsory and carries 40 marks

Section II is also compulsory and contains long essay questions

Attempt **ONLY** three questions in section II

Answer all questions on the answer booklet provided

SECTION I

Multiple Choice Questions. (40 marks; 2 marks each)

1. Economics is the study of ____________

A) Managing money

B) Choices under scarcity

C) Resource allocation

D) Entrepreneurship

2. What is market power?

A) The ability of consumers to set prices in the market.

B) The ability of firms to lower prices below the equilibrium price.

C) The ability of firms to raise prices above the equilibrium price.

D) The ability of firms to maintain prices at the equilibrium price.

3. In a free market economy ___________ ____________

A) Government intervenes

B) Government plans production

C) Producers and consumers interfere

D) Prices adjust to reconcile scarcity and desires

4. Normative economics forms ____________ based on ______________

A) Positive statements, facts

B) Opinions, personal values

C) Positive statements, values

D) Opinions, facts

5. _______________ states that “as more and more of a single commodity is consumed, each additional unit consumed provides the consumer with less additional satisfaction than the preceding unit such that total utility will increase up to a maximum level then it will fall when marginal utility becomes negative.

A) Cardinal utility

B) Ordinal utility

C) Constant returns to scale

D) Diminishing marginal utility

6. The key characteristics of a monopolistically competitive market structure include:

A) Many small (relative to the total market) sellers acting independently.

B) All sellers sell a homogeneous product.

C) Barriers to entry are strong.

D) Sellers have no incentive to advertise their products.

7. A firm would decide to shut down production if its production resulted in:

A) AFC > AVC.

B) MR < AVC.

C) MR < ATC.

D) ATC > AVC.

8. If a typical firm in a perfectly competitive industry is incurring losses, then:

A) All firms will continue to lose money.

B) Some firms will enter in the long run causing market supply to increase and market price to rise increasing profit for all firms.

C) Some firms will exit in the long run causing market supply to decrease and market price to fall increasing losses for the remaining firms.

D) Some firms will exit in the long run causing market supply to decrease and market price to rise increasing profits for the remaining firms.

9. In a perfectly competitive market the term "price taker" applies to:

A) Only the smallest sellers and buyers.

B) Buyers but not sellers.

C) Firms but not buyers.

D) Sellers and buyers.

10. Which of the following explains market power?

A) The ability of consumers to set prices in the market.

B) The ability of firms to lower prices below the equilibrium price.

C) The ability of firms to raise prices above the equilibrium price.

D) The ability of firms to maintain prices at the equilibrium price.

11. A good that is non-excludable and non-rival in consumption is:

A) Inferior good

B) Luxury good

C) Public good

D) Merit good

12. Which of the following best explains opportunity cost?

A) The ability of firms to raise prices above the equilibrium price.

B) The monetary value of a decision, measured by the total cost.

C) The expense of a choice, measured by the immediate cost.

D) The cost of making a choice, measured by what is missed out on.

13. A natural monopoly is protected by a barrier to entry that takes the form of:

A) Control of a key raw material.

B) Economies of scale.

C) Network externalities.

D) Diseconomies of scale.

14. _______________ refers to the firm's changes in output as all factors of production are changed by the same proportion.

A) Law of returns to scale

B) Marginal rate of substitution

C) Law of variable proportions

D) Production function

15. The proportion of the Total revenue earned by a firm during a time period and the number of units it has sold is called:

A) Marginal revenue
B) Average revenue
C) Super normal profits
D) Marginal cost

16. Under oligopolistic market structure:

A) There are very many firms that individually control the market. These firms create entry barriers on the strength of their market share.

B) Firms in an oligopoly actively engage in price wars.

C) Usually, firms that form a conglomerate appoint a price leader. This leader guides the group's actions and helps provide an operational framework.

D) Each player in an oligopoly is small and hence cannot influence over the market.

17. A utility maximizing consumer will adjust his purchases of a commodity until the marginal utility of the last unit purchased;

A) Is equal to the price of a unit of that product.
B) is equal to the average utility
C) is equal to the aggregate demand of that product
D) is greater than the price of a unit of that product

18. The Diminishing marginal rate of substitution is also;

A) The slope of the total utility curve

B) The slope of the marginal utility curve

C) Slope of the cardinal utility approach

D) Slope of the indifference curve

19. If a firm lowered the price of its product and found that total revenue did not change, then the demand for its product is:

A) Relatively elastic.

B) Perfectly elastic.

C) Perfectly inelastic.

D) Unit-elastic.

20. The amount of money that buyers would have been willing to pay, minus the amount of money that they actually paid, is called;

A) Producer's surplus

B) Consumer surplus

C) Social surplus

D) Economic surplus

SECTION II (60 marks: 20 marks each)

(i) The section contains five (5) **Long Essay** questions

(ii) Answer **ONLY** three (3) questions (iii) Each question carries equal marks

Question 21

Define the concept of consumer behavior. Explain the indifference curve approach and discuss its derivation in examining consumer behavior. (20 marks)

Question 22

"Macroeconomics is the forest and Microeconomics is the trees". Elaborate?

(b) Discuss the private firm as a producer and employer in the economy?

(20 marks)

Question 23

Explain the concept of profit optimization of the firm. Define economies of scale and the different types of economies of scale. (20 marks)

Question 24

Explain with diagrams how firms in monopolistic competition engage in price determination. (b) Discuss the extent to which firms in monopolistic competition attain equilibrium position to attain profits. (20 marks)

Question 25

Monopoly is the best market structure that is able to achieve efficiency, equity and innovation. Discuss. (20 marks)