



MASENO UNIVERSITY  
UNIVERSITY EXAMINATIONS 2025/2026

FIRST YEAR FIRST SEMESTER EXAMINATIONS  
FOR THE DEGREE OF BACHELOR OF ARTS IN  
ECONOMICS, BACHELOR OF SCIENCE IN  
MATHEMATICS AND ECONOMICS, BACHELOR  
OF SCIENCE IN ECONOMICS AND STATISTICS,  
BACHELOR OF SCIENCE IN ECONOMICS AND  
FINANCE AND BACHELOR OF SCIENCE IN  
INFORMATION SYSTEMS

**MAIN CAMPUS**

BEC 101: INTRODUCTION TO  
MICROECONOMICS

Date: 9<sup>th</sup> January, 2026

Time: 8:30 – 11:30am

## INSTRUCTIONS:

- DO NOT write anywhere on this question paper
- Answer question ONE (COMPULSORY) and carries 25 marks and choose ANY other THREE questions of which each carries 15 marks

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ISO 9001:2015 CERTIFIED

### **QUESTION ONE:**

a) The Kenya government has endeavored to assist local farmers increase food Production through subsidizing of farm inputs and price controls to reduce Uncertainties. However, Adam Smith who is considered by many economists as the father of economics, rooted for free market economic system as the best system for allocating economic resources. In line to this statement;

i) Explain the free market economic system concept and its relevance in Kenya. (4 marks)

ii) Using examples discuss two limitations of free market economic system in Kenya and how they are resolved. (4 marks)

- iii) Discuss the three fundamental questions any economic system should address. (6 marks)
- b) Using examples, outline two differences between positive and normative economics. (4marks)
- c) Citing examples in Kenya, explain two distinguishing features of a monopoly from perfect competition market structure. (4 Marks)
- d) What is meant by producer's equilibrium? Explain the conditions of achieving it. (3 marks)

## QUESTION TWO

- a) The Competition Authority of Kenya is a body mandated by the government to regulate and control competition malpractices among the business community that can lead to monopoly power in Kenya.
- (i) Discuss three sources of monopoly power in Kenya.
- (6 Marks)
- ii) Explain four ways by which the Kenya government can control monopoly power. (4 marks)
- b) Let linear demand function be given as:  $Q = 40 - 10P$ .
- (i) Derive market demand function when there are 50 consumers in the market.
- (1mark)

- (ii) Calculate quantity demanded for an individual consumer at  $P = 2$   
(1 marks)

(c) A 20% fall in the price of sugar leads to 25% rise in its demand. Calculate the price elasticity of demand. Comment on the commodity. (2 marks)

### **QUESTION THREE**

- a) Explain the distinction between "change in quantity supplied" and "change in supply". Use diagram. (9 Marks)
- b) Discuss three reasons why the demand curve slopes downwards from the left to the right. (6 Marks)

### **QUESTION FOUR**

- a) Explain using a diagram, a firm making normal profits under perfect competition. (9 Marks)
- b) By use of a diagram explain how equilibrium price and quantities are attained in the free-market. (6 marks)

### **QUESTION FIVE**

- a) Using a diagram distinguish between producer surplus and consumer surplus (6 marks)
- b) Explain the law of variable proportions and how its relevance to rice farmers in Kenya. Use a diagram. (9 marks)

### QUESTION SIX

a) Firm X total cost (in millions) schedule is given in the following table

Output units	0	1	2	3	4	5	6	7	8
Total cost KES	60	90	105	115	120	135	160	200	260

- (i) What is the total fixed cost of this firm? (1 marks)
- (ii) Calculate the Average Fixed Cost (AFC), Average Variable Cost (AVC), Average Total Cost (ATC) and Marginal Cost (MC). (8 marks)
- b) Explain why the labour supply curve bends backwards.(6marks)