MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC AFFAIRS, RESEARCH & EXTENSION

UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:-   **BBM 210/ECO 210**

COURSE TITLE:-   **INTERMEDIATE MICROECONOMICS**

DATE:- 17TH AUGUST, 2016   **TIME:- 9.00A.M. - 12.00NOON.**

INSTRUCTION TO CANDIDATES

➢   SEE INSIDE.

MOI UNIVERSITY
SCHOOL OF BUSINESS AND ECONOMICS
INTERMEDIATE MICROECONOMICS
BBM 210

Instruction to candidates:

Answer any one and any other three questions

QUESTION ONE

(a) A consumer's utility function is of the form:

$$U = 50q_1q_2$$

The consumer's money income is M and the respective prices of q_1 and q_2 are p_1 and p_2

(i)   Construct the marshallian and compensated demand functions for q_1 and q_2 (16 marks)

(ii)   Suppose the consumer's money income is Ksh 50000 and that the price of q_1 is Ksh 25 while that of q_2 is Ksh 50. Find the consumer's optimal consumption bundle. (4 marks)

(b) Examine the key characteristics of economic models. What are the major limitations of economic models (5 marks)

QUESTION TWO

(a) Define 'oligopoly' and with the aid of appropriate diagram, explain why on theoretical considerations oligopolistic prices should be more stable than prices of other product market structures (7 marks)

(b) Distinguish between substitution effect and income effect of a price change. Decompose the effect of a price change into substitution and income effects using

(i)   The Slutsky method

(ii)   The Hicksian method   (8 marks)

QUESTION THREE

(a) Explain the concept of consumer surplus and show how it is used to measure consumer's welfare changes (5 marks)

diff btn expected & actual.

(b) Using a mathematical approach, derive the equilibrium position of a price discriminating monopolist, show that the monopolist will charge a higher price in the market whose demand is less elastic (10 marks)

$MR = MC_i = MC_h$

QUESTION FOUR

(a) Using graphical approach or otherwise, explain the stages of production of a firm and distinguish between the average product and marginal product of a production function (5 marks)

(b) Discuss the purpose of the marginal rate of substitution in production theory. The production function of a firm is represented by a combination of labor, L and capital K to produce a given level of output Q. If the has a given cost outlay, C and the wage rate is W while the rental value of capital r, derive the firm's output maximizing point (10 marks)

Maximization of Output ST cost

External — pollution use of these
- localization excess nurse a make
- by product of scale- Output
- economies of
- vertical integration Q=f(M = WK + CL + λ (constraint fxn).
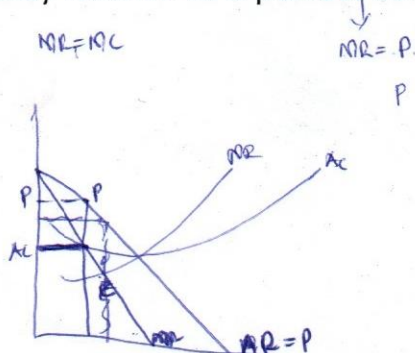
QUESTION FIVE

(a) Explain with examples the economies and diseconomies of scale. How do economies and diseconomies of scale determine the shape of Long run average Cost Curve (LAC) (7 MARKS)
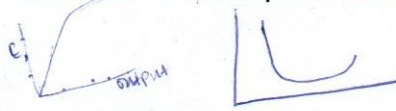
(b) Explain why a monopolistic competitor's equilibrium leads to economic inefficiency relative to a perfect competitor (8 marks)

$MR = MC$ $MR = P.$

QUESTION SIX

Suppose that the market demand and costs of a duopolists are:

$$P = 100 - 0.5\,(Q_1 + Q_2)$$
$$C_1 = 5Q_1$$
$$C_2 = 0.5Q_2{}^2$$

(i)   Derive the reaction curves of the duopolists (8 marks)

(ii)*   Using graphic and mathematical exposition, find the output produced by each firm and the total output in the market (4 marks)

(iii)   What price will be charged by the duopolists (3mks)