(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAM EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ECO 211

COURSE TITLE: INTERMEDIATE MICRO-ECONOMICS

DATE 7ᵀᴴ OCTOBER,2021   TIME 9.00AM 11.00AM

INSTRUCTIONS TO CANDIDATES
Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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QUESTION ONE

a) Economics can be said to be the social science that deals with production and distribution of goods and services. In relation to this highlighted the four areas touching on the scope of Economics. (4mks)

b) An economy can be said to be a system in which scarce resources are allocated among unlimited ends and due to these choices are made. Enumerate some of the economic choices. (4mks)

c) Give three uses of economic models. (3mrks)

d) Elasticity is the responsiveness of quantity demanded or supplied due to some factors. Highlight any four factors that affect elasticity of demand. (4mks)

e) Given that the Cobb Douglas production function is given by $Q = AL^{\alpha}K^{\beta}$ using partial derivation show that α and β are the elasticity of responsiveness of labour and capital respectively. (6mks)

f) Describe three laws of return to scale. (4mks)

g) Distinguish between substitution effect and income effect of a price drop in a normal good. (3mks)

h) How are prices determined in an oligopoly market.(2mks)

QUESTION TWO

a) A Monopoly has the following demand functions

$$P_1 = 100 - 8Q_1$$

$P_2 = 160 - 6Q_2$

$TC = 120 - 20Q , Q = Q_1 + Q_2$

Find profit maximizing level of output and price in each market. (10mks)

b) Give reasons for existence of Monopoly. (10mks)

QUESTION THREE

a) Using a well labelled diagram discusses the substitution effect and income effect of a price drop in x on normal good. (10mks)

b) What are the characteristics of perfectly competitive market. (10mks)

QUESTION FOUR

a) Describe the profit-maximizing condition for a firm in any market. (5mks)

b) Distinguish between oligopoly market and monopolistic competitive firm. (4mks)

c) What are the assumptions of ordinal utility theory. (6mks)

d) Highlight the steps in constructing an economic model. (5mks)

QUESTION FIVE

a) Using examples and diagrams distinguish between total Utility and marginal utility. (8mks)

b) Give the circumstances when the law of diminishing marginal utility. (5mks)

c) Discuss the applications of elasticity of demand in decision making. (7mks)