(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018 ACADEMIC YEAR

SECOND YEAR 1ST SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS & RESOURCE MANAGEMENT

COURSE CODE: ECO 201
COURSE TITLE: INTERMEDIATE MICROECONOMICS

DATE: 17TH OCTOBER 2018   **TIME: 8 – 10 AM**

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other two (2) Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over ▶

Q1.

a) A monopoly firm is faced with the following demand function

$P = 13 - 0.5Q$

The Marginal Cost function for the firm is given by MC=3 + 4Q and the total fixed cost is fc=4.

Determine:

i) The profit maximizing output.	**(6 marks)**
ii) The level of supernormal profit if any.	**(3 marks)**
iii) The output level at the break-even point.	**(4 marks)**

b) State the assumptions underlying the law of diminishing marginal utility   **(5 marks)**

c) Write short notes on the following;

     i) Increasing and decreasing returns   **(4 marks)**

     ii) Economies and diseconomies of scale   **(4 marks)**

     iii) Marginal physical product and average physical product   **(4 marks)**

Q2.

a) Explain the sources of internal economies of scale to a firm   **(10 marks)**

b) Explain the characteristics of perfectly competitive market   **(10 marks)**

Q3.

a) Using the cardinalist approach of consumer behavior, distinguish between income and substitution effects of a fall in price for a normal good   **(10 marks)**

b) Explain the difficulties faced in measuring consumer surplus   **(10 marks)**

Q4.

a) The table below represents a production function for a commodity x where capital is fixed and labour is variable.

Quantity of labour	Total Physical product (tons of x)
0	0
1	15
2	34
3	48
4	60
5	62

Required

i)   Draw the marginal product for labor curve. **(5 marks)**

ii)   Plot average product for labor curve **(5 marks)**

(b) With the aid of a well labeled graph, show how consumer equilibrium is achieved in a "two persons exchange economy" **(10 marks)**