



(Knowledge for Development)

120

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2014/2015 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ECO 201/310**

**COURSE TITLE: INTERMEDIATE MICRO-ECONOMICS**

**DATE: 27<sup>TH</sup> SEP 2017**      **TIME: 8.00 A.M - 10.00 A.M**

---

**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

This Paper Consists of 2 Printed Pages. Please Turn Over. ►



## SECTION A

### QUESTION ONE

- (a) (i) Define Marginal Utility and clearly explain the law of diminishing marginal utility. (6 marks)
- (ii) What key assumptions underlie this law? (3 marks)
- (b) Explain the consumer equilibrium using indifference curves (5 marks)
- c) Distinguish between Fixed and variable costs of production. (4 marks)
- d) Discuss fully the three main stages associated with the law of variable proportions (12 marks)

## SECTION B

### QUESTION TWO

- (a) Differentiate between economies of scale and returns to scale (4 marks)
- (b) Given a firm's demand function  $Q - 90 + 2P = 0$  and its average cost function  $AC = Q^2 - 8Q + 57 + 2/Q$ , determine the level of output which maximizes profits (NB: only the first order condition is required). (8 marks)
- (c) (i) Explain why a firm in perfect competition may continue in the production of goods which it can only sell at a loss and why it cannot continue doing this indefinitely. (4 marks)
- (ii) Illustrate and explain the short-run supply curve of a firm in perfect competition (4 marks)
- (20 marks)**

### QUESTION THREE

- (a) (i) What is an indifference curve? (2 marks)
- (ii) Explain the FOUR main characteristics of indifference curves (8 marks)
- (b) (i) Briefly explain two exceptions to the definition of an indifference curve. (4 marks)
- (ii) Explain any THREE uses of indifference curve analysis. (6 marks)
- (20 marks)**

### QUESTION FOUR

- a) Explain THREE features of monopolistic competition. (6 marks)
- b) With aid of an appropriate diagram, explain the short-run and long-run equilibrium of a monopolistic competition. (9 marks)
- c) Explain SIX limitations of the Cardinalist Approach to utility (5 marks)

### QUESTION FIVE

- a) Distinguish between specialization and division of labour. (5 marks)
- b) Explain, with examples, FIVE ways in which specialization is important to Kenya. (10 marks)
- c) Discuss the behavior of oligopolies when setting up market prices. (5 marks)