



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2017/2018 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: 17/10/2018 TIME: 9:00 AM

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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SECTION A (COMPULSORY)

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 (CHOOSE ANY TWO QUESTIONS)

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)