



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
2ND YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: AEC 201

COURSE TITLE: INTERMEDIATE MICROECONOMICS

EXAM VENUE: LAB 1

STREAM: (BBA)

DATE: 06/05/2016

EXAM SESSION: 2.00 – 4.00 PM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

(a) Write short notes on the following terms as used in intermediate microeconomics

(10 marks)

- (i) Indifference Curve
- (ii) Consumer equilibrium
- (iii) Marginal cost
- (iv) Diminishing returns
- (v) Normal profit

(b) Discuss the assumptions of Cardinal and Ordinal approaches to measuring utility

(10 marks)

(c) Using graphical illustrations, depict the differences between Marginal Cost(MC), Average Variable Cost(VC) and Average Total Cost(ATC)

(10 marks)

QUESTION TWO

(a) Explain the term Pareto optimality as used in welfare economics.

(5 marks)

(b) Using relevant diagram, explain the conditions of Pareto optimality in production, exchange and efficiency.

(15 marks)

QUESTION THREE

(a) Discuss how technological constraint and market constraint hinders firms from achieving their prime objective of profit maximization.

(10 marks)

(b) Explain the concepts of production function, marginal product of labour and diminishing returns using graphical illustrations

(10 marks)

QUESTION FOUR

(a) Suppose a utility function is specified as

$$U(X_1, X_2) = X_1^\alpha X_2^\beta$$

Derive the demand functions that represent the optimal choice bundle X_1^*, X_2^* which provides the solution to the consumer utility maximizing problem. (12 marks)

(b) Using a well labeled diagram discuss the consumer equilibrium applying the concepts of budget line and theory of preferences (4 marks)

(c) Explain the assumptions of consumer preferences (4 marks)

QUESTION FIVE

Suppose that an industry is characterized as follows:

$C = 100 + 2Q^2$	Firm total cost function
$MC = 4Q$	Firm marginal cost function
$P = 90 - 2Q$	Industry demand curve
$MR = 90 - 4Q$	Industry marginal revenue curve

(a) Suppose there is only one firm in the industry, find the monopoly price, quantity, and level of profit. (5 marks)

(b) Find the price, quantity, and level of profit if the industry is competitive. (5 marks)

(c) Using a well labeled diagram explain the short run equilibrium of a monopolist and hence the necessary conditions for monopolist profit maximization (10 marks)