



**JARAMOGI OGINGA ODINGA UNIVERSITY
OF SCIENCE & TECHNOLOGY
UNIVERSITY EXAMINATIONS 2012/2013
2ND YEAR 1ST SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
(REGULAR)**

COURSE CODE: AEC 201

COURSE TITLE: INTERMEDIATE MICRO-ECONOMICS

DATE: 21/8/2013

TIME: 2.00-4.00 PM

DURATION: 2 HOURS

INSTRUCTIONS

- 1. This paper consists of 5 Questions.**
- 2. Answer Question 1 (Compulsory) and any other 2 questions.**
- 3. Write your answers on the answer booklet provided.**
- 4. Use clearly labelled diagrams to illustrate your answers where applicable.**

Q1a) Compare the concept of equilibrium according to the Cardinalist and the Ordinalist. (6 marks)

b) Compute the producers' surplus given the following information:

$$P_d = 300 - 0.4Q$$

$$P_s = 10 + 0.8Q$$

(6 marks)

d) Kenya power recently revised the electricity tariffs upwards. Assuming that the consumer buys electricity (X_1) and other commodities (X_2), explain the total effect of such a raise in electricity tariff. Use a well labeled diagram to support your argument. (6 marks)

e) In which stage of the classical production function would a profit maximizing producer likely to operate? Explain. (6 marks)

f) Explain why a profit maximizing firm will always be in equilibrium where the marginal revenue equals the marginal cost (MR=MC). (6 marks)

ATTEMPT ANY TWO QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS.

Q2a) Assume the demand function for beef is: $X_1 = 200 + (M \div 50P_1)$. If a consumer's income is Kshs. 50000 per month and the price of beef is kshs. 360

i) What is his demand for the beef? (5 marks)

ii) Due to drought conditions, the price of beef falls to Kshs. 250. What is the total effect of the price reduction? (5 marks)

b) Using a well labeled diagram, distinguish the effect of a lump sum tax from that of a specific tax. (10 marks)

Q3) The cabinet secretary for national treasury is proposing to re-introduce the value added tax (VAT) bill on basic commodities. This bill it is argued will help raise the additional revenue to finance the 1.6 trillion budget. Assume two basic commodities, maize flour (x) and wheat flour (y), explain in detail the effect of the value added tax on the demand for the two items and hence the effect on tax (VAT), revenue.

(20 marks)

- Q4a) Using a well labeled diagram, show the relationship between:
- i) The total cost. (2 marks)
 - ii) The total fixed cost. (2 marks)
 - iii) The total variable cost. (2 marks)
- c) Given the following cost function, compute:
- i) Average total cost. (2 marks)
 - ii) Marginal cost. (2 marks)
 - iii) Average variable costs. (2 marks)
 - iv) Show that the marginal cost will always intersect the average cost curve at the lowest point of the average cost curve and that the marginal cost must be rising at the point of intersection. (8 marks)
- Given $TC = 450 + 20Q + 60Q^2$

Q5a) Using the Edgeworth box diagram, explain Pareto efficiency in production. (8 marks)

b) With a well labeled diagram discuss:

- i) The case of stable equilibrium;
- ii) Unstable equilibrium;
- iii) Multiple Equilibria.

(4marks each)