**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**
**UNIVERSITY EXAMINATION (JANUARY –APRIL 2017)**

**SECOND FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR ADMINISTRATION AND COMMERCE**

**MAIN CAMPUS**

# BEN3211/AEC 201: INTERMEDIATE MICROECONOMICS

**Date:** **Time:**

## INSTRUCTIONS

1. Answer Question **ONE** and any other **TWO** questions.
2. Question ONE carries **30** marks, the rest **20** marks each
3. Marks will be awarded for being neat, clear and use of relevant illustrations

## QUESTION ONE

(a) Differentiate between cardinal and ordinal utility theories giving assumptions in each case **(12marks)**

(b) With relevant diagrams differentiate between consumer equilibrium and producer equilibrium and state the conditions in each case **(10marks)**

(c) Explain Samuelson's revealed preference theory **(8marks)**

## QUESTION TWO

(a) Explain the difference between explicit and implicit costs of production and geometrically derive average and marginal costs **(10marks)**

(b) Explain the features of an oligopoly market and explain the concept of kinked demand curves of firms in this market. (10marks)

## QUESTION THREE

Suppose that you are given a firm's demand function as

P=100-2Q

And firm's cost function is given as:

TC=50+40Q

(i) Find the firm's total revenue (TR) and her marginal revenue (MR) **(4marks)**

(ii) Calculate the firm's marginal costs (MC) **(2marks)**

(iii) Calculate the firm's average costs **(2marks)**

(iv) From the information given above, calculate the firm's profit maximizing output and price levels (Q* and P*) **(8marks)**

(v) Calculate the firm's maximum profit and show that this is the true maximum profit by using the second order conditions as a test **(4marks)**

## QUESTION FOUR

**(a)** Using classical production function explain the stages of production of a firm and advise on the best optimal stage of operation **(10marks)**

**(b)** Using diagrams differentiate between producer surplus and consumer surplus **(10marks)**

## QUESTION FIVE

**(a**) Explain Pareto Efficiency conditions and illustrate with relevant diagrams **(10marks))**

**(b)** Assume two good X and Y which are normal and the income of the consumer (I). Assume further a fall in the price of good X while the price of Y and income (I) of the consumer are constant. Explain income and substitution effects of the price fall and illustrate with a diagram. **(10marks)**