

The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2018

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

UNIT CODE:

UNIT TITLE: INTERMEDIATE MICROECONOMICS

DATE: DECEMBER, 2018

TIME:

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) The following is a demand function and price for good x

$$X = 6_p P - 100 \quad P_1 = 85$$

The consumer income is kshs 10,000

Required:

- Calculate the total change in demand (5 marks)
 - Calculate the substitution effect (10 marks)
 - Calculate the income effect (5 marks)
- (b) Explain clearly the arguments against monopolies (10 marks)

QUESTION TWO

- (a) A firm operating in a perfectly competitive market has to sell its output at the price of kshs 20 per unit. Its marginal cost function is given by $Q+4$ and the total fixed cost is 2/=

Determine

- The profit maximizing output level (5 marks)
 - The level of supernormal profit if any (5 marks)
- (b) Briefly explain factors that may lead to an increase in the unit cost of production of a firm (10 marks)

QUESTION THREE

- (a) Briefly explain what is meant by tragedy of the common. Give an examples. (4 marks)
- (b) List one of each
- Positive and negative consumption externalities (4 marks)
 - Positive and negative production externalities (4 marks)
- (c) Imperfect and asymmetric information can lead to drastic differences in the nature of market equilibrium. Briefly explain **FOUR** ways in which agents mitigate against adverse selection and moral hazard (8 marks)

QUESTION FOUR

- (a) Given the following economic function distinguish between the supply and demand curves. Clearly show your working (10 marks)
- $$Q_a = \frac{1}{2}P^2 + 2P - 300$$
- $$Q_b = 4P - P^2 - 400$$

- (b) Explain clearly with aid of a graph the income and substitution effect of a price fall for a normal good (10 marks)

QUESTION FIVE

- (a) Write short notes on the following:

- i. Marginal utility
- ii. Isoquant
- iii. Indifference curves
- iv. Marginal product of labour

(20 marks)