The Co-operative University College of Kenya

(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATION APRIL-2015

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS (YR11 SEM 1)

UNIT CODE: HCOB 2206

UNIT TITLE: INTERMEDIATE MICRO ECONOMICS

DATE: APRIL, 2015 **TIME: 9.00 A.M. – 11. 00 A.M.**

INSTRUCTIONS:

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

QUESTION ONE

(a) Explain any THREE characteristics of economic resources. (6 marks)

(b) The demand and total cost functions for XYZ Ltd is given by the following equations

$$P = 400 - 20Q$$
$$TC = 500 + 2Q^2$$

Find the profit maximization price and output of the two firms. (6 marks)

(c) With the help of indifference curves, differentiate between perfect substitutes and present complements. (6 marks)

(d) Explain FOUR characteristics of game theory. (4 marks)

(e) Write short notes on the following

i. Public goods

ii. The kinked oligopoly demand curve

QUESTION TWO

(a) With the aid of a well labeled diagram, justify why indifference curves never intersect. (6 marks)

(b) Graphically show and explain the income and substitution effects of a price change for a normal good. (8 marks)

(c) Explain the assumptions of consumer rationality. (6 marks)

QUESTION THREE

(a) A producer has a possibility of discriminating between a domestic and a foreign market. The demand functions for both domestic and foreighn market respectively are as follows:

$$Q1 = 42 - 0.2P_1$$
$$Q2 = 100 - 0.8P_2$$

Assume that the total cost function of the firm is given by:
Determine the profit maximizing level of output in each market (i.e. domestic and foreign) and the corresponding prices. (8 marks)

(b) Highlight any FOUR conditions that favour the effective use of price discrimination. (4 marks)

(c) With the aid of a well labeled diagram, explain why firms in perfectly competitive markets only make normal profits in the long run. (6 marks)

QUESTION FOUR

(a) Explain the THREE stages of production implied by the law of diminishing marginal returned and highlight why a firm may not operate in the first and the third stage of production. (10 mars)

(b) A Juakali artisan produces specially designed leather belts. The demand schedule for the belts is as follows

Price (sh.)	Quantity of belts (Units)
1500	200
2000	100

i. Calculate the arc price elasticity of demand and interpret the results. (3 marks)

ii. Highlight any THREE uses of elasticity of demand (3 marks)

(c) State the FOUR factors of production (4 marks)

QUESTION FIVE

(a) With the help of relevant economic tools where possible, briefly explain the following terms

i. Opportunity cost
ii. Consumer equilibrium
iii. Nash equilibrium
iv. Marginal rate of technical substitution
v. Economic rent

(b) Discuss the causes of market failure and explain the measures that the government can put in place to deal with the problem of market failure. (10 marks)