

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

ECON 212: INTERMEDIATE MICROECONOMICS

STREAMS: BCOM (ODEL)

TIME: 2 HOURS

DAY/DATE: TUESDAY 03/12/2019

2.30 PM – 4.30 PM

INSTRUCTIONS:

Answer Question One and any other Two Questions

Question One (Compulsory)

- (a) Distinguish between bad and neutral goods. [2 marks]
- (b) Explain the three assumptions about preferences. [6 marks]
- (c) Explain the assumptions and weaknesses of cardinal utility theory. [10 marks]
- (d) The following production function is given $y = 4x^{0.5}$ where y is output and x is input. Let P be the price of output and w be the price of input device the corresponding profit function. [6 marks]
- (e) Given the following production function $Q = \frac{3L^2K^3 + K^5}{LK^2}$
- (i) What is a homogenous production function? [2 marks]
- (ii) Find the degree of homogeneity and comment on returns to scale. [4 marks]

Question Two

- (a) Explain the advantages and disadvantages of price discrimination by the monopoly. [10 marks]

- (b) A consumer's direct utility function is given as $U = x_1^{1/2}x_2^{1/2}$. Let P_1 and P_2 be the price of the two goods x_1 and x_2 respectively and M be the income of the consumer.
- (i) Find the corresponding Marshallian demand functions [8 marks]
- (ii) Find the utility function [2 marks]

Question Three

- (a) Explain the properties of indifference curves. [10 marks]
- (b) Suppose that $Y = x_1^{1/2}x_2^{1/2}$ where Y is output, X_1 and X_2 are inputs. What is the associated cost function? [10 marks]

Question Four

- (a) With the help of a diagram explain the inefficiency of monopoly. [10 marks]
- (b) Using Edgeworth box analyze the exchange of two goods between two people and thereafter show the pareto efficiency allocation. [10 marks]
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