

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF

ECON 212: INTERMEDIATE MICROECONOMICS

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 26/07/2018

11.30 A.M – 1.30 P..M

INSTRUCTION: Answer question ONE and TWO others

1. (a) Distinguish the following terms. [10 marks]

- (i) Isocost and budget line
- (ii) Indifference curve and isoquant
- (iii) Inferior good and giffen good
- (iv) Bad good and neutral good
- (v) Oligopoly and monopoly

(b) State 4 types of production functions. [4 marks]

(c) Suppose that the demand curve for two oligopoly firms is given by $P=100 -q$,

$$Q= q_1 + q_2. \text{ If marginal cost the firm is 5 and the two forms chose}$$

quantities simultaneously, Calculate the equilibrium quantity, price and profit

for each form. [10

marks]

(d) Discuss the sources of monopoly power [4 marks]

(e) Given the following production function $Q= \frac{AL^2K}{L^3}$, find;

(i) Calculate the degree of homogeneity [2 marks]

- (ii) Calculate the MPL and MPK [2 marks]
 (iii) Comment on the returns to scale [2 marks]

2. (a) List the assumptions of ordinal utility approach. [5 marks]
 (b) Why do you think cartels in practice rarely achieve joint profit maximization. [5 marks]
 (c) Discuss the inefficiency of a monopolistic competition market. [10 marks]

3. (a) Using a well labeled diagram, explain the concept of substitution effect, income effect and total effect in case of an increase in price for a Giffen good. [10 marks]

- (b) Given that the market demand $P = 200 - 0.8q$ and the cost function $C_1 = 10Q_1^2$, $C_2 = 80q_2$. Find the equilibrium price and output. [10 marks]

4. (a) Given that $U = X_1^2 X_2^3$. If the price for X_1 and X_2 is P_1 and P_2 respectively, calculate the Marshallian demand function and hence the maximum utility. [10 marks]

- (b) Explain the assumptions of cardinal utility and their weaknesses. [10 marks]
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