

CHUKA



UNIVERSITY

## RESIT/ SPECIAL EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF  
BACHELOR OF COMMERCE

ECON 212: INTERMEDIATE MICROECONOMICS

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/09/2018

8.30 AM – 10.30 AM

## INSTRUCTIONS:

- Answer Question One and any other Two
- Question One (Compulsory)

1. (a) Given the following information:  $X = 10 + \frac{M}{10P}$ , Original income is Ksh 120, original price is Ksh 3 and New price is ksh 5. Determine;
- By how much should the consumer be compensated to remain on the same indifference curve. [4 marks]
  - The total effect and separate it into substitution and income effect. [4 marks]
  - Present your results in a well labeled diagram. [4 marks]
- (b) Distinguish between the following terms as used in microeconomics:
- Budget constraint and budget set [2 marks]
  - Marginal utility and marginal rate of substitution [2 marks]
  - Returns to scale and monotonicity [2 marks]
  - Isoprofit and Isocost line [2 marks]
  - Giffen and normal good [2 marks]
- (c) With the aid of a well labeled diagram, explain the effect of a decrease in price of an inferior good. [8 marks]

marks]

**QUESTION TWO**

- (a) Given the following utility function  $U = X_1^{\frac{1}{4}} X_2^{\frac{3}{4}}$ , determine the following
- (i) Marshallian demand functions [8 marks]
  - (ii) Indirect utility [4 marks]

Distinguish

Using a well labeled diagram, differentiate the short-run equilibrium condition from a long-run equilibrium condition for a monopoly market structure. [8 marks]

**QUESTION THREE**

- (i) Given that the market demand of a certain economy is  $P=400-1.6x$  and the cost functions  $C_K=20 X_k^2, C_m=600 X_m$ . Obtain the equilibrium price and output for the market. [12 marks]
- (ii) Explain the three forms of price discrimination. [8 marks]

**QUESTION FOUR**

- (a) Explain the assumptions and weaknesses of cardinal utility theory. [10 marks]
- (b) With a well labeled diagram, show and explain the forces of demand and supply work to maintain the equilibrium quantity and equilibrium price. [10 marks]
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