CHUKA   **UNIVERSITY**

ECON 212: INTERMEDIATE MICROECONOMCS

STREAMS: B.Sc. (ECON)   **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 03/02/2021   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS: Answer question ONE and any other TWO

QUESTION ONE (COMPULSORY)

a) Distinguish between the following terms as used in microeconomics:

    i.   Isocostline and the Budget line   (2 Marks)

    ii.   Indifference curve and the Isoquant   (2 Marks)

    iii. Ordinalist approach and the Cardinalist approach   (2 Marks)

    iv. Marginal rate of substitution and the Marginal rate of technical substation (2 Marks)

b) Discuss the properties of production function   (8 Marks)

c) Consider the following demand function for a consumer $X = 10 +$ where M is the consumer's income and P is the price of good X. Let the original income of the consumer be Ksh. 3000, and the price of good X be Ksh. 60. Suppose that the price of good X increases to Ksh. 80, compute;

    i.   Income effect   (4 marks)

    ii.   Substitution effect   (3 marks)

    iii. Total effect   (3 marks)

d) Discuss the features of isoquants   (4 Marks)

QUESTION TWO

a) Using a well labeled diagram, derive the demand curve using the indifference curve approach (10 Marks)

b) Explain the assumptions made under the ordinalists approach (10 Marks)

QUESTION THREE

a) Given the following production function, Y= Compute the maximum profit for the firm (10 Marks)

b) Using a well labeled diagram, differentiate the short-run equilibrium condition from a long-run equilibrium condition for a perfect competitive firm (10 Marks)

QUESTION FOUR

a) Given the following Cobb- Douglas production function Q=M, obtain the following

   i. Marginal product of the factors of production (2 marks)

   ii. Marginal rate of technical substitution (2 marks)

   iii. Elasticity of substitution (4 marks)

   iv. State whether the production function is homogenous or not (2 marks)

   v. Determine the returns to scale of the production function (2 marks)

b) Discuss the characteristics of the Oligopoly market structure (8 Marks)