KISII UNIVERSITY

UNIVERSITY EXAMINATIONS
MAIN CAMPUS
SECOND YEAR EXAMINATION FOR THE AWARD OF THE DEGREE
OF BACHELOR OF COMMERCE /BUSINESS MANAGEMENT
FIRST SEMESTER, 2015/2016
(SEPTEMBER –DECEMBER, 2015)

BBAM BCOM 201: INTERMEDIATE MICRO ECONOMICS

STREAM: BCOM   Y2 S1   TIME: 2 HOURS

DAY: MONDAY, 10.30-12.30 PM   DATE: 30/11/2015

INSTRUCTIONS

1. *Do not write anything on this question paper.*
2. *Answer question ONE [1] and any other TWO [2] questions.*
3. *Question ONE carries 30 marks and the rest 20 marks each.*
4. *Marks will be awarded for being neat, clear and use of relevant illustrations.*

QUESTION ONE

(a) Differentiate between cardinal and ordinal utility theories giving assumptions in each case   (12marks)

(b) With relevant diagrams distinguish between consumer equilibrium and producer equilibrium and state the conditions in each case   (10marks)

(c) Differentiate between the following:
   (i) consumer surplus and producer surplus   (4marks)
   (ii) Explicit and Implicit Costs   (4marks)

QUESTION TWO

(a) Explain the difference between accounting profit and economic profits and geometrically derive average and marginal products
                                                            (10marks)

(b) Explain the features of a perfectly competitive market and the demand curves of firms in this market and their profit maximization conditions   (10marks)

QUESTION THREE

Suppose that you are given a firm's demand function as
Q=2000-20P
And firm's cost function is given as:
TC=$0.05Q^2$ +10,000

i) Find the firms TR & MR
(ii) Calculate the firm's marginal costs (MC) **(2marks)**
(iii) Calculate the firm's average costs **(2marks)**
(iv) From the information given above, calculate the firm's profit
maximizing output and price levels (Q* and P*) **(8marks)**
(v) Calculate the firm's maximum profit (Π) **(2marks)**
(vi) Show that this is the true maximum profit by using the second
order conditions as a test **(2marks)**

QUESTION FOUR

(a) Using diagrams differentiate between the following
(i) Income consumption curve and Price consumption curve
(5marks)
(ii) Indifference curve and Isoquant curve **(5marks)**
(b) Using classical production function explain the stages of production of
a firm and advise on the best optimal stage of operation **(10marks)**

QUESTION FIVE

(a) Explain determinants of supply elasticity and problems facing suppliers
(12marks))

(b) Assume two good X and Y which are normal and the income of the
consumer (I). Assume further a fall in the price of good X while the price of
Y and income (I) of the consumer are constant. Explain income and
substitution effects of the price fall and derive demand curve for good X
illustrate with a diagram **(8marks)**