

**UNIVERSITY OF KABIANGA**

**UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 211R**

**COURSE TITLE: INTERMEDIATE MICRO ECONOMICS**

**DATE: 30TH JANUARY, 2018**

**TIME: 9.00 A.M-12.00 NOON**

**INSTRUCTIONS TO CANDIDATES:**

Answer Question **One (compulsory)** and any other **Three** Questions

**QUESTION ONE (25 MARKS)**

1. Briefly explain the following terms as used in economics;
2. The law of diminishing marginal utility. (3 marks)
3. The consumer equilibrium. (3 marks)
4. Consumer surplus. (2 marks)
5. Consider the following utility maximization problem;

Maximize u=xy

Subject to 6x + 3y = 120

Required:

1. Construct the lagrangian function. (2 marks)
2. Determine the level of x, y and (*lambda*) that satisfy the first order conditions of maximizing utility. (6 marks)
3. Check the second order condition. (2 marks)
4. What is the maximum utility? (2 marks)
5. Explain the concept of the firm’s least cost factor combination. (5 marks)

**QUESTION TWO (15 MARKS)**

1. Briefly differentiate between oligopoly and monopolistic competition. (4 marks)
2. With the aid of a well labelled diagrams, explain the relationship between long-run and short run average costs of a firm. (4 marks)
3. Distinguish between economies and diseconomies of scale. (4 marks)
4. Using the law of diminishing marginal utility, explain why a demand curve slopes downwards from left to right. (3 marks)

**QUESTION THREE (15 MARKS)**

1. Define the term price discrimination as used in economics. (3 marks)
2. Differentiate between normal, inferior and giffen goods. (6 marks)
3. Given that a producer has the possibility of discriminating between a domestic market and a foreign market for a product where the demand functions respectively are given as below;

Q1= 42-0.2P1

Q2= 100-0.8P2

Total cost is given by;

TC= 4000 + 20Q

Where Q= Q1 + Q2

Calculate the respective domestic and foreign prices of the product. (6 marks)

**QUESTION FOUR (15 MARKS)**

1. Briefly explain why the marginal cost curve should always cut across the average cost curve at its lowest point. (4 marks)
2. The total cost equation in production of a Tea factory is given as follows;

C= 1000 + 100Q – 15Q2 + Q3

Where C= cost measured in shillings.

Q= quantity measured in kilograms.

1. Compute the TC and AC at the output level of 10 and 11 kilograms respectively. (4 marks)
2. What is the marginal cost of the 12th kilogram? (3 marks)
3. Under what conditions does a monopoly exist? (4 marks)

**QUESTION FIVE (15 MARKS)**

1. Explain the limitations of the cardinal utility theories. (3 marks)
2. Using indifference curve analysis, distinguish between perfect substitutes and perfect complements. (6 marks)
3. State the ideal conditions for a perfect market. (6 marks)