

W1-2-60-1-6

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 2 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2205: INTERMEDIATE MICRO-ECONOMICS THEORY**

**DATE: April 2015 TIME: 2 HOURS**

**INSTRUCTIONS: Answer Question One (Compulsory) and any Other Two Questions**

**QUESTION 1 (30 MARKS)**

1. Explain the following terms as used in Economics, Microeconomics in particular
2. Revealed preference, using a diagram represented by the Budget-line (2marks)
3. Indifference curves (2marks)
4. Price consumption line (2marks)
5. Inferior goods (2marks)
6. Price Elasticity of demand (2marks)
7. Perfect substitutes (2marks)
8. Economies of scale (2marks)
9. Public goods (2marks)
10. Positive externality (2marks)
11. The mean as a measure of central tendency (2marks)
12. What is the effect of a subsidy, or a tax for that matter, in a market with a horizontal supply curve? And what is the situation like if the supply curve is vertical? (10marks)

**QUESTION TWO (20 MARKS)**

What is a market failure and what causes market failures? Please suggest some possible cures of market failures

**QUESTION THREE (20 MARKS)**

Using a diagram demonstrate the Equivalent and compensating variations of a price change, explaining the purpose for each one of them.

**QUESTION FOUR (20 MARKS)**

The table below contains grades on Quiz for a class of 40 students:

7 5 6 2 8 7 6 7 3 9

10 4 5 5 4 6 7 4 8 2

3 5 6 7 9 8 2 4 7 9

4 6 7 8 3 6 7 9 10 5

Calculate the mean explaining why this mean is the population mean (μ) and not the sample mean

What is the mode of the distribution? And the median of the distribution? (20marks)

**OR**

What is the modal shoe for women? And for men? And how is the situation exploited by manufacturers of shoes?

And what would manufacturers of shoes resort to if the modal shoe numbers of human beings did not exist? (20marks)

**QUESTION FIVE (20 MARKS)**

Commodities such as water have very low price elasticity of demand especially by households, that is domestic use. Explain why this is the case and go on to explain the implications in terms of water supply by water supply Authorities.

What about electricity? Would the same conditions apply to the supply of electricity? In particular what would you say about the price elasticity of demand for electricity by households? What about by industrialists? (20marks)

**OR**

What is the definition of a numeraire good or price and what purpose does a Numeraire good or price serve? (20marks)