

(*University Of Choice*)

**MASINDE MULIRO UNIVERSITY OF SCEINCE AND TECHNOLOGY**

**(MMUST)**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**UNIVERSITY EXAMINATIONS**

**2018/2019 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF SCIENCE-ECONOMICS, BACHELOR OF EDUCATION- ARTS, BACHELOR OF COMMERCE**

**COURSE CODE: ECO 210/ECO 310**

**COURSE TITLE: INTERMEDIATE MICRO-ECONOMICS**

**DATE: FRIDAY, 27-9-2019 Time: 8:00-10:00**

**INSTRUCTIONS TO CANDIDATES**

ATTEMPT QUESTION **ONE** AND ANY OTHER **TWO**

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This paper consists of 3 Printed Pages. Please Turn Over.

**QUESTION ONE**

1. Write brief notes on the following economic concepts:
2. Elasticity of substitution (4 marks)
3. The law of diminishing marginal returns of a factor input (4 marks)
4. The law of equi-marginal utility (4 marks)
5. Positive and normative economic analysis (4 marks)
6. Examine the key characteristics of economic models. What are the major limitations of economic models (6 marks)
7. Distinguish between substitution effect and income effect of a price change. (8 marks)

**QUESTION TWO**

1. Define ‘oligopoly’ and with the aid of appropriate diagram, explain why on theoretical considerations oligopolistic prices should be more stable than prices of other product market structures. (10 marks)
2. Decompose the effect of a price change into substitution and income effects using
3. The Slutsky method
4. The Hicksian method (10 marks)

**QUESTION THREE**

(a)Explain the concept of consumer surplus and show how it is used to measure consumer’s welfare changes (10mks)

(b)Using a mathematical approach, derive the equilibrium position of a price discriminating monopolist, show that the monopolist will charge a higher price in the market whose demand is less elastic (10mks)

**QUESTION FOUR**

(a)Using graphical approach or otherwise, explain the stages of production of a firm and distinguish between the average product and marginal product of a production function (10mks)

(b)Discuss the purpose of the marginal rate of substitution in production theory. The production function of a firm is represented by a combination of labour, L and capital K to produce a given level of output Q. If the has a given cost outlay, C and the wage rate is W while the rental value of capital r, derive the firm’s output maximizing point (10mks)

**QUESTION FIVE**

(a)Explain with examples the economies and diseconomies of scale. How do economies and diseconomies of scale determine the shape of Long run average Cost Curve (LAC) (4mks)

(b)Explain why a monopolistic competitor’s equilibrium leads to economic inefficiency relative to a perfect competitor (8mks)

(c)State and explain the differences between cornet equilibrium and stackelberg equilibrium in oligopolistic market (8mks)