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SECOND YEAR SECOND SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION  
(FOR 2019/2020 ACADEMIC YEAR)

FOR  
THE  
DEGREE OF  
BACHELOR OF COMMERCE  
COURSE CODE: ECO 210  
COURSE TITLE: INTERMEDIATE MICROECONOMICS

**INSTRUCTIONS TO CANDIDATES**

1. Answer question **ONE** and any other **THREE** questions.
2. Duration for this paper is **THREE** hours.

**Question One**

- a) Describe the Characteristics of Perfectly competitive market. (5 Marks)
- b) With the help of a well labeled diagram, explain the concept of substitution effect and income effect for rise in the price of an inferior good. (6 Marks)
- c) Describe the condition under which a monopoly achieves equilibrium in the short run (5 Marks)
- d) Explain the limitation of economic theory. (4 Marks)
- e) Explain the concept of constant returns to scale. (4 Marks)

**Question Two.**

- a). Explain the following concepts:
  - i. Economies of scale. (2 Marks)
  - ii. Oligopoly; (2 Marks)
  - iii. Normative economics; (2 Marks)
  - iv. Budget constraint. (2 Marks)
- b). Draw an individual's indifference map for two goods, X and Y where the individual regards X and Y as perfect complements. (7 Marks)

**Question Three.**

- a) "Monopolistic competition provides a wide variety of products for consumers at the cost of some resource misallocation." Discuss. (9 Marks)
- b) Describe how the cardinal approach is used in determining utility. (6 Marks)

**Question Four.**

a) Describe the effect of change in price of a good on consumer equilibrium under the ordinal approach. (8 Marks)

b) Given the utility function  $U = X^{1/2}Y^{1/2}$ . Determine the marginal rate of substitution (7 Marks)

**Question Five**

a) Explain the role of economies and diseconomies of scale in determining the shape of a firm's long-run average cost curve. (6 marks)

b) Describe the concept of returns to scale and homogeneity of the production function. (4 marks)

c) "Perfectly competitive markets produce normal profits in the long run". Explain. (5 marks)