

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

**UNIVERSITY EXAMINATIONS 2018/2019**

**YEAR 3 SEMESTER 1 EXAMINATIONS FOR THE DEGREE OF BACHELOR OF DEVELOPMENT STUDIES/PUBLIC MANAGEMENT AND DEVELOPMENT**

**HDS 2302: MICROECONOMICS II**

**DATE: AUGUST 2019 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

1a) Discuss what is understood by the following:

i) General equilibrium model (2 marks)

ii) Production possibility frontier (2 marks)

iii) Utility indifference curve (2 marks)

iv) Public good (2 marks)

v) Welfare function (2 marks)

vi) Externalities (2 marks)

vii) Private goods (2 marks)

bi) Explain any three assumptions of an economy experiencing a perfectly competitive price system (6 marks)

ii) Assuming that an economy has four markets namely market for good A, market for good B, market for labourers producing good A and market for labourers producing good B and that the forces of supply and demand are perfectly working in this economy. With the help of diagrams, describe how a new equilibrium will be attained assuming that through research it has just been discovered that good B can prevent one being infected with Malaria the news which throws the markets in the economy into disequilibrium (10 marks)

2a) State and discuss any one strength and one weakness of each of the three criteria that can be used to allocate welfare in the economy. (10 marks)

b) Using Arrows Theorem show that there is no perfect way to make social decisions even in the case of democracy (10 marks)

3a) With the help of an illustration, describe how demand and production cost interact to determine market structures namely perfectly competitive, monopoly and oligopoly (10 marks)

b) Using game theory, demonstrate that players in an oligopoly market structure are interdependent (10 marks)

4a) What is understood by the following:

i) Nationalization (2 marks)

ii) Privatization (2 marks)

b) State and discuss any two reasons why the government may decide to nationalize an industry (4 marks)

c) The arguments for and against running industries as private or public entities is raises a number of issues. Examine any four of these issues (12 marks)

5a) Using examples, describe what is understood by the following:

i) Consumption externality (2 marks)

ii) Production externality (2 marks)

b) Discuss any two ways in which an economy or a firm can cope with externality (4 marks)

ci) What are the two main criteria used to distinguish private goods from public goods (4 marks)

ii) Using the criteria in 5(i) and examples, identify any two different types of public goods

(6 marks)

iii) What one reason why it is difficult even for the government to provide public goods adequately to the citizens (2 marks)