



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2013/2014

**SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY
(HOMA BAY CAMPUS)**

AEC 201: INTERMEDIATE MICRO ECONOMICS

Date: 30th March, 2014

Time: 2.00 – 4.00pm

INSTRUCTIONS:

- Answer QUESTION ONE and any other TWO questions.
- Question carries 30 marks and the rest 20 marks each.



1. (a). (i). Distinguish between the cardinal and ordinal utility theories. (4marks)
 - (ii). Assuming a utility function given as $U = 100Q_1^{0.8}Q_2^{0.2}$, determine the consumer's marginal rate of commodity substitution. (5marks)
 - (ii). With the help of an illustration, explain the consumer equilibrium conditions from the cardinalists point of view. (4marks)
 - (c). Using a diagram, explain Hicksian decomposition of the price effect into substitution and income effects. (6marks)
 - (d). Define an envelope curve and explain its economic importance to a manager of a business firm. (4marks)
 - (e). (i). Explain the leisure- income trade off and the need for higher wage pay than the normal wage pay. (5marks)
 - (ii). Explain the property of convexity to the origin of an indifference curve (2marks)
2. (a). Explain the three stages of classical production function. (9marks)
 - (b). Which production stage is desirable to a rational producer? Give reasons for your answer. (4 marks)
 - (c). Given a firm's total revenue function $R = Q(5e^{-0.004q})$ and its total cost function $C = 4 + Q$, determine the firm's profit. (7marks)
3. (a) Distinguish between the following terms:
 - (i). Explicit and implicit costs. (4marks)
 - (ii). Iso cost and Iso quant. (4marks)
 - (b) Differentiate between economies of scale and returns to scale. (4marks)
 - (c) Given a firm's demand function $Q - 90 + 2P = 0$ and its average cost function $AC = Q^2 - 8Q + 57 + 2/Q$, determine the level of output which maximizes profits. (8marks)
4. (a). Define Pareto efficiency. (3marks)
 - (b). Explain the conditions for Pareto efficiency in production and consumption. (17marks)
5. (a). Distinguish between monopoly and perfectly competitive form of market structures. (4marks)
 - (b). Using a diagram, explain the profit maximizing conditions of a monopolist. (10marks)
 - (c). Identify any four sources of monopoly and succinctly provide arguments for and against monopoly form of market structures. (6marks)