

UNIVERSITY OF KABIANGA  
ACADEMIC YEAR 2017/2018  
THIRD YEAR FIRST SEMESTER EXAMINATION  
MAIN EXAMINATION

**ECO 310: INTERMEDIATE MICRO ECONOMICS**

**INSTRUCTIONS TO THE CANDIDATE: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS**

**QUESTION ONE (25marks)**

(a) Briefly explain the following terms as used in intermediate micro economics;

- i). The budget line (2marks)
- ii). The law of diminishing marginal utility (3marks)
- iii). The consumer equilibrium (3marks)
- iv). Isoquant and isocost (4marks)

(b) Assume that a producer has the possibility of discriminating between a domestic and a foreign market for a product where the demand functions are respectively given as follows

$$Q_1=42-0.2P_1$$

$$Q_2=100-0.8P_2$$

Total cost is given by:

$$TC=4000+20Q$$

Where  $Q= Q_1+ Q_2$

Calculate profit maximizing level of output and their respective prices in the domestic and foreign markets respectively (8marks)

(C) Explain the limitations of cardinal utility theories (5marks)

**QUESTION TWO (15marks)**

- (a) Discuss four sources of monopoly power (8marks)
- (b) Using indifference curves, distinguish between perfect substitutes and perfect complementary goods (4marks)
- (c) State the necessary and sufficient conditions for profit maximization (3marks)

**QUESTION THREE (15marks)**

(a) With the aid of a diagram, explain the concept of a firm's least cost factor combination (5marks)

(a) The total cost equation in the production of meat at KMC factory is given as follows;

$$C=1000+100Q-15Q^2+ Q^3$$

Where C=cost measured in shillings

Q=quantity measured in kilogrammes

required;

- i) Compute the total and average costs at the output level of 10 and 11 kilogrammes respectively (4marks)
- ii) What is the marginal cost at the 12<sup>th</sup> Kilogramme? (2marks)
- iii) Explain the shape and relationship between AC, AVC, MC and AFC using relevant diagrams (4marks)

**QUESTION FOUR (15marks)**

- (a) Define the term price discrimination as used in economics (3marks)
- (b) Briefly differentiate between oligopoly and monopolistic competition (4marks)
- (c) Discuss the main features of a perfect competitive firm (8marks)

**QUESTION FIVE (15marks)**

- (a) ) Explain three properties of indifference curves (6marks)
- (b) Differentiate between income and substitution effects of price change (5marks)
- (c) Justify the reason why marginal cost curve should always cut across the average cost curve at the lowest point (4marks)