



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2015/2016

**SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

HOMA-BAY CAMPUS

AEC 201: INTERMEDIATE MICRO-ECONOMICS

Date: 14th December, 2015

Time: 8.00 - 10.00 am

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.
- Do NOT write anything on this question paper

QUESTION ONE

- (a). State the law of demand and explain the shift factors of demand curve. (4marks)
- (b). Suppose a rational consumer's utility function is given as $U = U(x, y) = x^{0.3}y^{0.7}$, assuming further that the consumer's budget constraint is specified as : $240 = 4x + 6y$, where unit price of x and y are ksh 4 and ksh 6 respectively, determine the quantity of x and y that will maximize the consumer's utility. (8marks)
- (c) Define marginal utility and clearly explain the axiom of diminishing marginal utility. (5marks)
- (d) Illustrate and explain the Consumer equilibrium under the ordinalist approach. (7marks)
- (e). Distinguish between the following terms as used in microeconomics:
- (i). Explicit costs and Social costs. (2marks)
- (ii). Monopoly and Monopsony. (2marks)
- (iii). Production in technical sense and production in economic sense. (2marks)

QUESTION TWO

- (a). Explain the property that indifference curves should not intersect. (5marks)
- (b). Using a well labelled diagram, explain the leisure income trade-off and the need for higher over time rates than the normal wage rates. (8marks)
- (c). With the help of a diagram, explain from the Slutsky's perspective the substitution and income effects of a price fall on the demand for a normal good. (7marks)

QUESTION THREE

- (a) (i) State the law of diminishing average productivity of a variable factor. (2marks)
- (b).(i). Explain with the help of a diagram how you would derive the three stages of classical production function. (10marks)
- (ii). Which is the most desirable stage and why? (3marks)
- (c). Test the following production function for returns to scale and determine MP_L and MP_K $Q = 5K^{0.4}L^{0.6}$ (5marks)

QUESTION FOUR

- (a). Geometrically derive marginal cost, average fixed cost, average variable and average total cost curves. (6marks)
- (b). Using a diagram, explain the relationship between the cost curves in (3b) above. (6marks)
- (c). (i). Explain the short run equilibrium conditions for a firm in a perfectly competitive market. (4marks)
- (b). Show that the slope of a monopolist's MR curve is twice the slope of its AR curve. (4marks)

QUESTION FIVE

- (a). What is an edge worth contract curve? (2marks)
- (b). Using an edge worth box diagram, explain Pareto efficiency in production. (10marks)
- (c). Derive the Pareto optimal conditions for production. (8marks)