



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION  
BACHELOR OF COMMERCE

**BFI 4201: INTERMEDIATE MICRO ECONOMIC THEORY**

SPECIAL/SUPPLEMENTARY EXAMINATIONS

**SERIES: FEBRUARY/MARCH 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Five printed pages***

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**QUESTION 1 (Compulsory)**

- a) i) Explain using an example the optimization problem giving its **THREE** components. **(4 marks)**  
ii) Illustrate the point of tangency where utility is maximized explaining why other levels are not optimal. **(6 marks)**
- b) i) Using examples, explain the **THREE** axioms of revealed preference. **(6 marks)**  
ii) Define the following:
  - i. Engel curve
  - ii. Income offer curve **(4 marks)**

- c) Mr Kamau enjoys playing sports, he enjoys Golf (G) and Pool (P) each week and derives enjoyment according to the following utility function:

$U(G, P) = X_G^{1/2} X_P^{1/2}$ . If he has to spend 240/- a week on these two activities, and the price for a round of golf is 40/- and a game of pool is 40/-. How will Mr Kamau pursue his game interests in order to maximize his utility. **(10 marks)**

## QUESTION 2

- a) i) Define the following:
- Diminishing Marginal Product of Labour
  - Average Product of Capital
  - Marginal rate of technical substitution.
- (6 marks)**
- ii) Explain the relationship between inputs and outputs using an Isoquant map and illustrate it graphically. **(4 marks)**
- b) Explain the **THREE** types of costs. **(10 marks)**

## QUESTION 3

- a) Explain and illustrate using isoquant maps where costs are minimized, giving reasons why costs cannot be minimized beyond a certain level. **(10 marks)**
- b) Illustrate and explain Marginal Cost and Average Cost curves given the different types of returns to scale. **(10 marks)**

## QUESTION 4

- a) Explain what occurs in a perfectly competitive market from short run to long run when new firms enter the market given an increasing cost case. **(10 marks)**
- b) Explain **THREE** objectives that the management of a firm may have. **(10 marks)**

## QUESTION 5

- a) Explain the characteristics of a monopolistic firm. Is price discrimination by a monopoly firm at times considered to be justified. **(10 marks)**
- b) Define an oligopoly market. Why is pricing or output decisions considered to be uncertain. **(10 marks)**