TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

BCOM Y2S1

BFI 4201: INTERMEDIATE MICRO ECONOMICS

END OF SEMESTER EXAMINATIONS

SERIES: DECEMBER 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

SECTION A: Answer Question ONE (Compulsory) and any other TWO Questions

BFI 4102:   INTERMEDIATE MICRO-ECONOMICS

Q1.   (a)   Highlight **FOUR** externalities associated with production   (8 marks)

      (b)   Highlight **THREE** benefits of a monopoly firm to the society.   (6 marks)

      (c)   The cost of a firm is given as $C = 25Q^3 + 10Q^2 - 15Q + 70$ compute the

      (i)   Marginal Cost   (4 marks)

      (ii) At what level of output will MC = AC   (4 marks)

      (d)   Highlight **FOUR** assumptions of the Law of Diminishing Marginal Utility.

                                                                           (8 marks)

Q2. (a) In a two commodity market the following equations represent demand and supply.

Product 1: $Qd_1 = 10 - 1.5P_1 + 0.5P_2$

                    $Qs = -5 + 2 P_1 - 2.5 P_2$

Product 2: $Qs = 7 - 0.5 P_2 + 2 P_1$

                    $Qs = -12 + 3 P_2 - P_1$

Determining the equilibrium prices P_2 & P_2 and equilibrium quantities Q_1 & Q_2 (12mks)

 (b)   Examine the characteristics of indifference curves   (8 marks)

Q3. (a) Examine **FOUR** market failures that lead to government intervention in the market.

                                                                           (10 marks)

   (b) Examine **FIVE** diseconomies of scale   (10 marks)

Q4.(a) Examine the Long-run equilibrium of a marginal firm.   (10 marks)

   (b) A firm product demand is given as

      P= 100 – 2.5Q

If the total cost is $C = 75 + 10Q$ find the profit maximizing output and price and also compute the maximum profits.   (10 marks)

Q5.(a) Examine the Long-run Average cost curve   (10 marks)

(b) Compare and contrast the perfect competition Monopolistic market structures (10 marks)

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Q1.   (a)   Examine FOUR features of perfect competition.   (4 marks)

       (b)   Examine FOUR methods of government intervention   (6 marks)

       (c)   Given the following demand function compute all the elasticities (8 marks)

Qx = 20 -1.5Px + 0.5Px +).5y-2Pz+4A+6Y

Where Qx = quantity of good x demanded
Px – price of good x
Py & P2-price of related goods
A-Advertisement expenditure
Y-Income level

Assume:-Px =10/-; Py=5/-Pz=4.50/=,A =200/;Y=1500/-what is the relationship good x,y & z
                                                               (10 marks)
(d)   What do the following concepts mean   (12 marks)
       (i)   Scarcity & scale of preference
       (ii)   marginal firm & isoquant
       (iii)   Kinked Demand curve & Price Discrimination
Q2.(a) Examine the ways in which eligopoly firms avoid competition   (10 marks)
 (b)   Explain how the law of diminishing marginal utility explains the Law of demand
                                                                (10 marks)
Q3. (a) A firms' production function is given as Q=LK. If the price of labour (L) is 10/= and the
       price of capital is 25/= and a firms investment funds available are 1000/=. Find the
       amount of labour and capital that will minimize cost of production.
                                                                (12 marks)
(b)   Examine the importance of elasticity of demand concept   (8 marks)

Q4. (a) Examine **FOUR** determinants of the elasticity supply   (6 marks)

       (b)   A discriminating monopolist operates in three markets whose demand functions
              are given below:-

MKT. Q = 50 – 0.5P
MKT 2 P = 75 -3Q
MKT 3 Q = 100 -2Q

If the total cost (C) = 25 Q + 750 compute the profit maximizing prices and outputs in the three
       markets. Compute the output and also the maximum profits.   (14 marks)

Q5 (a) Examine the Edge worth box diagram in relations to equilibrium   (10 marks)

(b)   Examine paceto Equilibrium conditions   (10 marks)