

PAPER B



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

BUSINESS ADMINISTRATION DEPARTMENT

COURSE/CLASS: BACHELOR OF COMMERCE

UNIT CODE: BFI 4201

UNIT NAME: INTERMEDIATE MICRO ECONOMICS

SERIES: MAY, 2016

PAPER DURATION: 2 HOURS

NO OF STUDENTS: 40

INSTRUCTIONS TO CANDIDATES:

Answer question ONE (Compulsory) and any other TWO questions.

PAPER B

SECTION A

Question One

- Q1. (a) Explain the concept of budget constraint (5 marks)
- (b) What are economic theory and its limitations (5 marks)
- (c) Suppose demand and cost functions for a monopoly firm are given as:-

$$Q_d = 100 - 0.2p$$

$$\text{Price function} = 500 - 5Q$$

$$\text{Cost function} = 50 + 20Q + G^2$$

Determine the following:-

- The profit maximizing level of output and price (5 marks)
- (d) Describe what you understand by the term externality and the various types of externalities
- (e) Differentiate between cardinal and ordinal utility (5 marks)
- (f) Carefully state and explain **THREE** assumptions of the revealed preference theory of demand (4 marks)

SECTION B

Question Two

The market demand schedule for a certain good is given by the function $Q_d = 36 - 1/3P$ and the supply function is $Q_s + q - 0.5P = 0$ where Q_d and Q_s are quantities demanded & supplied and P is price.

Required:-

- (a) Calculate the equilibrium price and quantity in the market
- (b) Calculate the price elasticity of demand and supply at the equilibrium price.
- (c) If the government imposes a tax per unit on quantity supplied and the producers adjust the supply function to include the tax: calculate the price elasticity of demand and supply at the new equilibrium price which includes the tax, when $t = 10$.
- (d) Who pays the tax?

Question Three

- (a) What do you understand by the term price discrimination? (4 marks)

- (b) When is price discrimination possible? (10 marks)
- (c) Is the price discrimination possible under perfect competition? Briefly explain your answer. (6 marks)

Question Four

- (a) Explain in details the properties of technology (8 marks)
- (b) Differentiate between:-
- (i) Budget set and production set
 - (ii) Return to scale and marginal productions (12 marks)