



# **MURANGA UNIVERSITY COLLEGE**

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAIN CAMPUS**

**SPECIAL UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**SECOND YEAR FIRSTSEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBC 2205**

**COURSE TITLE: INTERMEDIATE MICROECONOMIC THEORY**

**DATE: 5<sup>TH</sup> AUGUST 2015**

**TIME: 9.00-11.00AM**

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## **INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory

Answer TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

## QUESTION ONE

- a) With an aid of a well labeled diagram show and explain the consumer equilibrium clearly explaining all the components of you diagram. (10 marks)
- b) Discuss the general equilibrium analysis explaining the state of efficiency for general equilibrium to allocate resources efficiently (10 marks)
- c) Briefly explain your understanding of a Cobb-Douglas production function. Explain the properties of technology in the Cobb-Douglas function. (10 marks)

## QUESTION TWO

A firm has the following production function  $Y = X^{.33}Z^{0.67}$ , obtain the conditional demand functions. (20 marks)

## QUESTION THREE

- a) Assume that a monopolist has a constant marginal cost MC and With an aid of a well labeled diagram explain the impact of taxes on such a monopolist (10 marks)
- b) Clearly distinguish the following economic terms. Make use of equations and diagrams where necessary.
  - i. Market segmentation and market separation. (2 marks)
  - ii. Marginal rate of substitution and marginal rate of technical substitution (2 marks)
  - iii. Highlight and explain the axioms of consumer preference (6 marks)

## QUESTION FOUR

- a) Explain the following terms
  - i. Perfect information V/s. Zero transaction costs
  - ii. Profit maximization V/s. Utility maximization
  - iii. Homogenous products V/s. Constant returns to scale (6 marks)
- b) With aid of well labeled diagram show and explain the Hicks income effects. (9 marks)
- c) Give the mathematical expression of the budget line and present it on a diagram. Clearly show the slope and the intercept of this budget line (5 marks)