



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

SPECIAL UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBC 2205

COURSE TITLE: INTERMEDIATE MICROECONOMIC THEORY

DATE: TIME: 2 HOURS

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)

Question five

a) Discuss whether the banking sector in Kenya would be regarded as a perfect market.

(10 marks)

b) Suppose the consumer has the following utility function

$$U = X^{0.5}Y^{0.5}$$

Derive the demand function for X and Y respectively.

(10 marks)