



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2017/2018 ACADEMIC YEAR

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE IN MATHEMATICS AND ECONOMICS**

BCE 202 – INTERMEDIATE MICROECONOMICS

DURATION: 2 HOURS

DATE: 18TH DECEMBER, 2017

TIME: 2.00 – 4.00 P.M.

Instructions to Candidates:

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION ONE - COMPULSORY

QUESTION ONE (30 Marks)

- (a) Distinguish between the concepts of economic statistics and economic dynamics (4 Marks)
- (b) Discuss the following terms:
- i. Income effect (2 Marks)
 - ii. Substitute effect (2 Marks)
 - iii. Economic experiments (2 Marks)
 - iv. Business implications (2 Marks)
- (c) What do you mean by leadership concept in an oligopoly market (3 Marks)
- (d) Discuss fully the meaning of marginal productivity of a factor of production (5 Marks)
- (e) An important post Keynesian theory of consumption has been put forward by modigliani and Ando which is known as life cycle terms of consumption. Discuss the theory (10 Marks)

SECTION TWO – ANSWER ANY TWO QUESTIONS

QUESTION TWO (20 Marks)

- (a) I am lucky to live in the beautiful city of Bat in the South West of England. The city has 3 main recycling centers to encourage people to recycle as much waste as possible. At the moment anyone can use the centers whether they live in Bat or not. Equally anyone in Bat can also use a centre in another city if they want to. The council spends Kshs. 100,000 on recycling service. If 10% of people come from other and they are banned from using the sites then the cost of monitoring who is using the sites which is Kshs. 5,000. The neighboring council now has more people to deal with because no one from their cost goes up to Kshs. 110,000. This is fine for Bat until the neighboring councils do the same thing:
- When that happens the 10% of people who were giving from Bat to another area can only use Bat centers. These now adds Kshs. 10,000 back onto Bat cost bringing it up to Kshs. 105,000. That is the original cost of the service plus the cost of monitoring who is using it
- i. Show a pay off bi-matrix (8 Marks)
 - ii. Solve the game and show the Nash equilibrium (2 Marks)
- (b) The law of diminishing marginal utility has several impacts, discuss FIVE importances of the law (10 Marks)

QUESTION THREE (20 Marks)

- (a) Trade unions demand for higher wages is normally based on several grounds. Discuss FIVE factors that would form such grounds (10 Marks)
- (b) Monopolistic competition is a form of imperfect competition which lies between the extremes of perfect competition and monopoly and includes elements of both. Explain:
- i. Features of monopoly market (4 Marks)
 - ii. Features for perfect market (6 Marks)

QUESTION FOUR (20 Marks)

- (a) Discuss the meaning of the following terms:
- i. Game theory (2 Marks)
 - ii. Pure monopoly (2 Marks)
 - iii. Dominant strategy (2 Marks)
 - iv. Pareto efficiency (2 Marks)
 - v. Cartels (2 Marks)
- (b) A monopoly firm may further raise profits by charging different prices across consumers. Discuss the THREE degrees it can apply (10 Marks)