



# **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**

**BACHELOR OF COMMERCE**

**BCE 202 – INTERMEDIATE MICROECONOMICS**

**DURATION: 2 HOURS**

**DATE: 20<sup>TH</sup> APRIL, 2018**

**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 A – ANSWER ALL QUESTIONS IN THIS SECTION

### QUESTION ONE

- a) Explain five features of a free market Economy. (10 marks)
- b) Discuss five disadvantages of price mechanism. (10 marks)
- c) Define the law of diminishing marginal utility. (2 marks)
- d) The law of marginal utility does not apply in certain cases known as exceptions of these laws. Discuss at least four exceptions. (8 marks)

## SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION

### QUESTION TWO

- a) Gatheru and Kambu graduated from Nkubu University and instead of seeking employment, they set up a management consultancy. They have recently started to give business advice to their clients. Acting as consultants, they estimated the demand curve of a client's firm to be:  $AR=200-Q$ . Where AR is the average revenue in millions of shillings and Q is the output in units. Investigations of the client's firm's cost profile shows that marginal cost (MC) is given by  $MC=Q^2-28Q+211$  (in millions of shillings). Further investigations show that the firm's cost when not producing output is Shs. 10 million.

#### Required.

- i. The equation of total cost. (4 marks)
  - ii. The equation of total Revenue. (3marks)
  - iii. An express for profit. (2 marks)
  - iv. The level of output that maximizes profit. (4 marks)
  - v. The equation of marginal Revenue. (2 marks)
- b) State the relationship between total utility and marginal utility. (5 marks)

### QUESTION THREE

- a) An important post Keynesian theory of consumption has been put forward by Modigliani and Ando which is known as lifecycle theory of consumption. Discuss the theory using a graph. (10 marks)
- b) Explain five factors responsible for wage differentials between occupants (10 marks)

#### **QUESTION FOUR**

- a) Two suspects are charged with a joint crime and are held separately by the police. Each prisoner is told the following. If one prisoner confesses and other one does not, the former will be given a reward of 1 and the latter will receive a fine equal to 2, if both confess, each will receive a fine equal to 1 and if neither confesses, both will be set free.

#### **Required**

- i. Show a pay off bi matrix. (8 marks)
  - ii. Solve the game and show the Nash equilibrium. (4 marks)
- b) Explain four ways the government can influence the allocation of resources in a country. (8 marks)