



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

FOR

BSC. MATHEMATICS AND ECONOMICS.

COURSE CODE: BCE 2102

COURSE TITLE: MICRO ECONOMICS II.

DATE: 26TH APRIL 2016 TIME: 2 HOURS.

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer ANY OTHER TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities



QUESTION ONE

- a) Explain FIVE features of a free market Economy. (10 marks.)
- b) Discuss FIVE Disadvantages of price mechanism. (10 marks.)
- c) The change in demand is not always proportionate to change in price. Explain using diagrams. (10 marks.)

QUESTION TWO

- a) Gatheru and Karibu graduated from MKUNBI University and instead of seeking employment, set up a Management Consultancy. They have recently started to give business advice to their clients. Acting as consultants, they have estimated the demand curve of a client's firm to be;

$$AR = 200 - Q$$

Where AR is 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 have shown that the firm's cost when not producing output is Sh.10 million.

Required:

- a) The equation of total cost. (4 marks)
- b) The equation of total revenue (3 marks)
- c) An expression for profit (2 marks)
- d) The level of output that maximizes profit. (4 marks)
- e) 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 life cycle theory of consumption. Discuss the theory using a graph.
- b) Trade unions demand for higher wages is normally based on several grounds. Discuss FIVE factors.

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 the other one does not, the former will be given a reward of 1 and the later 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) 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 from the monopoly: (4 marks)

ii. Features from perfect competition:

(4 marks)