**GARISSA UNIVERSITY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BUSINESS MANAGEMENT**

**INTERMEDIATE MICROECONOMICS1**

**COURSE CODE: ECO210**

**YEAR OF STUDY: TWO, SEMESTER: ONE (BBM)**

**END OF SEMESTER EXAMINATION**

**ACADEMIC YEAR: 2020/2021**

**(Final Examination)- Draft1**

**INSTRUCTIONS:** ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

TIME: 2 HRS

**QUESTION ONE**

1. Define a consumer and explain some assumptions underlying cardinal utility analysis. (7.5marks)
2. Define marginal rate of substitution and explain the information it conveys. (7.5marks)
3. Discuss the concept of budget line (7.5marks)
4. Briefly explain how a firm in a monopoly incurs losses in the long run. (7.5 marks)

**QUESTION TWO**

The market for tickets to this year’s superbowl consists of two groups of consumers. Let X1 denote the demand for tickets by fans of one of the participating teams, and let X2 denote the demand for tickets by rich people who enjoy the spectacle. Let the price of a superbowl ticket be denoted by Px, and suppose that everyone who purchases a ticket pays the same price. The demand functions of the two consumer groups has been determined as follows:

X1=120-Px

2

X2 =60-px

6

(a) What is the market demand function for superbowl tickets, as a function of Px? (Remember that demand cannot be negative for either consumer group.) (8marks)

(b) Suppose that, at the ticket price chosen by the NFL, the price-elasticity of demand for consumers in group one is −2. What is the price-elasticity of demand for consumers in group e? (12marks)

**QUESTION THREE**

1. Explain the features of a perfectly competitive market (6marks)
2. Under perfect competition, firms make profits in the short run. Discuss. (14marks)

**QUESTION FOUR**

1. What do you understand by income consumption effect? (2marks)
2. With a given line of income and two types of goods in the market, say X and Y, the consumer will be in a position to make an informed choice by buying both goods in order to satisfy his utility. Assuming that the consumer’s income increases gradually, a situation which compels him to also gradually increase the amount of good X and Y that he buys, draw a well labeled curve (income consumption curve) demonstrating such a situation. (18marks)

**QUESTION FIVE**

Study the table below and answer the following questions

**TWO INDIFFERENCE SCHEDULES**

|  |  |  |
| --- | --- | --- |
| **Combination**  **A**  **B**  **C**  **D**  **E** | **schedule** I  **Good X GoodY**  10 11  09 10  08 09  07 08  06 07 | **Schedule**  II  **Good X Good Y**  11 14  10 13  09 12  08 11  07 10 |

1. Using the numbers given in schedule I and schedule II

(i) Plot a set of two indifference curves. (2 marks)

(ii) What is the name given to such set of indifference curves you have drawn? (2 marks)

(iii) Explain two features of indifference curves represented by the set of indifference curves you have drawn (4 marks)

1. Plot a separate curve using the various combinations in schedule I. Put points A, B, C, D and E as points on the indifference curve you have drawn, starting with point A at the top right part of the indifference curve followed by B, C, D, E as the curve slopes downwards to the right. Calculate the MRSxy  at point B, C,D and E. (12 marks)