# GARISSA UNIVERSITY

### UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR **TWO** **FIRST** SEMESTER EXAMINATION

### SUPPLEMENTARY/SPECIAL EXAMINATION

### SCHOOL OF BUSINESS AND ECONOMICS

### FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

**COURSE CODE: ECO 210**

**COURSE TITLE: INTERMEDIATE TO MICROECONOMICS**

### EXAMINATION DURATION: 3 HOURS

## DATE: 20/03/18                                           TIME: 09.00-12.00 PM

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**INSTRUCTION TO CANDIDATES**

- **The examination has SIX (6) questions**

- **Question ONE (1) is COMPULSORY**

- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**

- **Use sketch diagrams to illustrate your answer whenever necessary**

- **Do not carry mobile phones or any other written materials in examination room**

- **Do not write on this paper**

**This paper consists of THREE (3) printed pages**                         *please turn over*

## QUESTION ONE (COMPULSORY)

(a) Discuss the concept of consumer utility. **[5 marks]**

(b) Write short notes on the following:

    i.    Indifference curves **[2 marks]**

    ii.    Indifference map **[3 marks]**

    iii.    Budget line **[2 marks]**

    iv.    Consumer choice **[2 marks]**

    v.    Income consumption curve **[2 marks]**

c) Outline five assumption of a rational consumer **[5 marks]**

d) Explain clearly the theory of production. **[2 marks]**

## QUESTION TWO

(a) Explain what is meant by the term externality **[5 marks]**

(b) There are two main forms of externality. Explain **[10 marks]**

## QUESTION THREE

(a) The following is a total revenue equation for a monopoly:

$$TR = 300Q - 2Q^2$$

Where TR = revenue measured in million shillings, while Q = quantity measured in tonnes.

**Required:**

    i.    Calculate the total revenue received by the company at output 10 and 5 tonnes respectively

**[4 marks]**

    ii.    Calculate the marginal revenue of the company at the output level of 10 and 5 tonnes respectively **[4 marks]**

(b) Explain the following concepts:

    i.    Total revenue **[3 marks]**

    ii.    Marginal revenue **[2 marks]**

    iii.    Average revenue **[2 marks]**

## QUESTION FOUR

(a) Highlight five features of a monopolistic market structure **[5 marks]**

(b) A firm in a monopolist competitive market makes normal profit in the long run. Discuss.

**[10 marks]**

## QUESTION FIVE

(a) Market failure exists when the competitive outcome of markets is not satisfactory from the point of view of society. Explain**.** **[5 marks]**

(b) Discuss any five causes of market failure. **[10 marks]**

## QUESTION SIX

(a) The total cost function of a firm is $TC = 100 + Q^2 + 5Q^3$

Where TC = cost measured in million shillings, while Q = quantity measured in tonnes.

**Required:**

  i. Calculate the total cost of the firm at output levels 6 and 9 tonnes respectively **[4 marks]**

  ii. Calculate the marginal cost of the firm at the output levels 5 and 10 tonnes respectively

**[6 marks]**

(b) What is meant by profit maximizing output **[5 marks]**