GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR **TWO** **SECOND** 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 MICROECONOMICS

EXAMINATION DURATION: 3 HOURS

DATE: 27/09/17   **TIME: 09.00-12.00 PM**

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 TWO (2) printed pages   *please turn over*

QUESTION ONE (COMPULSORY)

(a) Briefly explain the effects of inflation in an economy   **[4 marks]**

(b) Explain two characteristics of public goods   **[4 marks]**

(c) Explain how price and output is determined in under perfect competitive market in the short run

      [6 marks]

(d) Suppose the price of sugar is ksh 11 per kg and demand is 100kg. When the price of sugar raises to ksh 11 demand contracts to 95kg. calculate the price elasticity   **[6 marks]**

(e) Explain the law of variable proportions. Explain various stages of this law will operate with the help of a table and diagram.   **[10 marks]**

QUESTION TWO

(a) Using a suitable example examples explain the factors that affect the consumer's choice of commodities.   **[10 marks]**

(b) Discuss the concept of long run equilibrium of a firm   **[10 marks]**

QUESTION THREE

(a) Explain the term Nash equilibrium as used in game theory   **[4 marks]**

(b) Discuss the monetary policies undertaken by the government to promote positive externalities

      [6 marks]

(c) There are many shops selling one product, prices are same and the brand too, explains what type of a market structure it is, assumptions and features.   **[10 marks]**

QUESTION FOUR

(a) Briefly explain Pareto efficiency theory   **[4 marks]**

(b) Using suitable example explain the prisoner dilemma   **[6 marks]**

(c) Construct an edge worth box diagram to show how production, efficiency and equilibrium are achieved in an economy.   **[10 marks]**

QUESTION FIVE

(a) Why is an isoquant for normal goods convex to the origin?   **[2 marks]**

(b) Identify the conditions necessary for perfect competition to prevail in the market   **[8 marks]**

(c) Using appropriate diagram explain how the monopolist make super normal profits   **[10 marks]**