PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BCM206

COURSE TITLE: INTERMEDIATE MICRO ECONOMICS

EXAM DATE: TUESDAY 3RD DECEMBER 2019

DURATION: 2 HOURS

TIME: 9:00AM-11:00AM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This exam script consists of **Six (6)** questions.
- Answer **questions ONE (compulsory)** and A**ny other three (3)** questions
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE: COMPULSORY

a. A consumer faces the budget line $p_1x_1 + p_2x_2 = m$. Currently the price of good 1 doubles, the price of good 2 becomes 8 times larger, and income becomes 4 times larger. Write down an equation for the new budget line **(2Marks)**

b. Using a diagram in each case illustrate the difference curves of:

   i. Perfect substitutes **(4 Marks)**

   ii. Perfect complements. **(4 Marks)**

c. Discuss two ways that the government can solve free rider problem that is caused by provision of public goods. **(5 Marks)**

d. Explain five factors that influence public policy. **(5 Marks)**

e. Discus five general assumptions of Cournot Model in Game theory. **(10 Marks)**

QUESTION TWO

a.
Managers must take into account all four
b. factors (environment, strategy, technology
c. and human resources) when designing the
d. structure of the organization
e.
Managers must take into account all four
f. factors (environment, strategy, technology
g. and human resources) when designing the
h. structure of the organization
i.
Managers must take into account all four
j. factors (environment, strategy, technology
k. and human resources) when designing the
l. structure of the organization
m.
Managers must take into account all four
n. factors (environment, strategy, technology
o. and human resources) when designing the
p. structure of the organization
q.
Managers must take into account all four
r. factors (environment, strategy, technology
s. and human resources) when designing the
t. structure of the organization

A firm produces candles. The market for candles is highly competitive, with candles currently selling for $10. The firm's short-run total cost function is $C = 200 + 0.2q^2$, so its marginal cost is $MC = 0.4q$.Determine:

i. The firm's profit-maximizing quantity **(6 Marks)**

ii. The firm profits **(4 Marks)**

QUESTION THREE

a) Distinguish between normal and supernormal profits. **(2 Marks)**
b) Explain four remedies to negative externalities. **(8 Marks)**

QUESTION FOUR

a) Using examples distinguish between perfects markets and imperfect markets**.** **(4 Marks)**
b) Discuss three characteristics of monopolistic competition. **(6 Marks)**

QUESTION FIVE

a) Discuss two characteristics of a pure public good. **(4 Marks)**
b) Explain three types of elasticities of demand. **(6 Marks)**

QUESTION SIX

The total cost equation in the production of beckon at a certain factory is given as follows
$C= 1000 + 1000\text{-}25Q^2 + Q^3$ Where C is the cost is Shs. and Q is the quality in kg.
Required: Compute

a) Average cost at the output of 10kg **(3 Marks)**
b) Average cost at the output of 11kg **(3 Marks)**
c) The marginal cost of the 12th kg. **(4 Marks)**