PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF BUSINESS LEADERSHIP

END OF SEMESTER EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM 206

Intermediate Microeconomics Theory

Online Exams

EXAM DATE:

TIME:

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer **any four questions only**

QUESTION ONE

a) A firm produces Bread. The market for bread is highly competitive, with bread currently selling for Ksh10. The firm's short-run total cost function is,

$$TC = 200 + 0.2q^2.$$

i. What is its marginal cost (MC)? (3 marks)
ii. What is the firm's profit-maximizing quantity? (2mark)

b) Suppose a monopolist demand function is given by

Q=110-5P

The supply function is

Q=6P

Required: Determine the profit maximizing levels of **price and Quantities** for the monopolist (5marks)

QUESTION TWO

a) Differentiate economics from economic theory (2marks)
b) Define monopoly and highlight any four sources of monopoly power)8mks)

QUESTION THREE

Citing relevant examples, explain the following terms as used in economics

i. Goods of ostentation (2mark)
ii. Diminishing marginal rate of substitution (2marks)
iii. Inferior goods (2mark)
iv. The law of variable proportions (4mks)

QUESTION FOUR

Explain the following terms as used in economics

i. Technical rate of substitution (2marks)
ii. Ordinary goods (2marks)
iii. Informal collusive oligopoly (2marks)
iv. Break-even point (BEP) (2marks)
v. Diseconomies of scale (2marks)

QUESTION FIVE

With relevant examples as appropriate, explain the following concepts as used in economics

a) Oligopoly (2mrks)
b) Game theory (4marks)
c) Collusion (4marks)

QUESTION SIX

a) Explain the concept of general market equilibrium (2marks)
b) Describe the principle of Pareto efficiency (2marks)
c) Illustrate with a diagram the Edgeworth Box and its application (6marks)