**PANAFRICA CHRISTIAN UNIVERSITY**

**END OF TRIMESTER EXAMINATIONS**

**BCM212- INTERMEDIATE MICRO-ECONOMIC THEORY**

**ATTEMPT FOUR QUESTIONS ONLY**

**TIME ALLOWED – 3 HOURS**

**QUESTION ONE (COMPULSORY)**

Consider a market where the demand and supply functions are given by;

Qd=100−2P and

Qs=3P−20Q_ respectively.

a) Determine the **equilibrium price and quantity** in this market (6mks)

b) For the demand curve, find Q when;
   i. P= 0
   ii. P= 10 (2mks)

c) For supply curve, find Q when;
   i. P= 0
   ii. P= 10 (2mks)

**QUESTION TWO**

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

i. Veblen good (2mark)
ii. Diminishing marginal rate of substitution (2marks)
iii. Inferior goods (2mark)
iv. Perfect substitutes (2mark)
v. Perfect Compliments (2mark)

## QUESTION THREE

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

$Q=100-2P$

The cost function is

$50 +40Q$

Required: Determine the profit maximizing levels of **price and output** for the monopolist

(5marks)

## QUESTION FOUR

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

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

## QUESTION FIVE

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 in economics

(6marks)

## QUESTION SIX

a) Differentiate economics from economic theory (2marks)
b) Explain three remedies to negative Economic externalities (4marks)
c) Define monopoly and highlight any three sources of monopoly power (4 marks)