



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL / REGULAR PROGRAMME

CEC 211 / ECN 201: INTERMEDIATE MICROECONOMICS

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Distinguish between the following terms:
- i) Optimization principle and equilibrium principle **(2 marks)**
 - ii) Consumer surplus and producer surplus. Illustrate your answer **(4 marks)**
 - iii) Ordinal utility and cardinal utility **(4 marks)**
 - iv) Short run and long run production plans **(2 marks)**
 - v) Income offer curve and Engle curve. Illustrate your answer **(4 marks)**
 - vi) Income effect and substitution effects of a price change. Illustrate your answer **(4 marks)**
 - vii) Fixed proportions technology and perfect substitute technology. Illustrate your answer **(3 marks)**
- b) Using suitable illustrations, give five (5) examples of preferences **(5 marks)**
- c) Explain briefly the term 'equilibrium of the consumer' faced with consumption of many commodities in a market **(2 marks)**

- Q2. a) Explain the following terms.
- i) Returns to scale **(3 marks)**
 - ii) Conditional factor demands **(2 marks)**
 - iii) Profit-maximizing factor demands **(2 marks)**
- b) Consider a two-case factor firm such that.
 $y = f(x_1, x_2)$, production function
 p , price of output
 w_1, w_2 , factor prices
- Required to:
- i) Write profit (π) equation of the firm **(2 marks)**
 - ii) Formulate both the short run and long profit maximization problem facing the firm **(4 marks)**
 - iii) Write the profit-maximizing condition **(2 marks)**
 - iv) Formulate the cost-minimization problem facing the firm **(2 marks)**
 - v) Write the condition for cost minimization **(3 marks)**
- Q3. a) Explain the following:
- i) A competitive firm will choose a level of output, y , where marginal cost at y is equal to the market price, p **(3 marks)**
 - ii) For a competitive firm, marginal revenue (MR) equals market price, p **(2 marks)**
- b) Explain briefly the following terms:
- i) Unconstrained market environment **(2 marks)**
 - ii) Constrained market environment **(4 marks)**
 - iii) Social costs **(2 marks)**
 - iv) Private costs **(3 marks)**
- c) Using suitable illustrations, explain the profit-maximizing behavior of:
- i) A competitive firm **(2 marks)**
 - ii) A monopoly firm **(2 marks)**
- Q4. a) Explain briefly the two (2) components of economic analysis **(2 marks)**
- b) Consider market for apartments with two (2) types that are identical except for location and reservation price, p .
 Required to:
- i) Draw the demand curve for the apartments **(2 marks)**
 - ii) Explain the supply of the apartments in the short run.
 Illustrate your answer **(2 marks)**

- iii) At equilibrium price, p^* , = Kshs15,000 for one of the apartment types, explain how many of the apartments will be rented **(1 mark)**
- c) A consumer faces some consumption bundle of good one and good 2. The respective marginal utilities are 10 and 20 and the respective prices are 2 and 4.
- Required to:
- i) State the equilibrium situation of the consumer **(1 mark)**
 - ii) Find the slope of the budget line **(1 mark)**
 - iii) Find the slope of the indifference curve **(1 mark)**
- d) Using suitable illustrations, distinguish between three (3) cases of optimal consumption positions, i.e., consumer optimal choices **(3 marks)**
- e) Using suitable illustration, explain briefly the term 'movement of elasticity along a linear demand curve' **(5 marks)**

END