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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR THREE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 310**

**COURSE TITLE: INTERMEDIATE MICROECONOMICS1**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 03/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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)**

1. Define a consumer and explain some assumptions underlying cardinal utility analysis. [6 marks]
2. Define marginal rate of substitution and explain the information it conveys. [6 marks]
3. Define an indifference map and explain it graphically. [6 marks]

(d) Discuss the concept of budget line [6 marks]

(e) Briefly explain how a firm in a monopoly incurs losses in the long run. [6 marks]

**QUESTION TWO**

The market for tickets to this year’s superbowl consists of two groups of consumers. Let X1 denote the demand for tickets by fans of one of the participating teams, and let X2 denote the demand for tickets by rich people who enjoy the spectacle. Let the price of a superbowl ticket be denoted by Px, and suppose that everyone who purchases a ticket pays the same price. The demand functions of the two consumer groups have been determined as follows:

X1=120-Px

2

X2 =60-px

6

1. What is the market demand function for super bowl tickets, as a function of Px? (Remember that demand cannot be negative for either consumer group.) [8 marks]
2. Suppose that, at the ticket price chosen by the NFL, the price-elasticity of demand for consumers in group one is −2. What is the price-elasticity of demand for consumers in group e? [12 marks]

**QUESTION THREE**

1. Explain the features of a perfectly competitive market [6 marks]
2. Under perfect competition, firms shut down temporarily. Discuss. [14 marks]

**QUESTION FOUR**

1. What do you understand by income consumption effect? [2 marks]
2. With a given line of income and two types of goods in the market, say X and Y, the consumer will be in a position to make an informed choice by buying both goods in order to satisfy his utility. Assuming that the consumer’s income increases gradually, a situation which compels him to also gradually increase the amount of good X and Y that he buys, draw a well labeled curve (income consumption curve) demonstrating such a situation. [18 marks]

**QUESTION FIVE**

1. What do you understand by price effect? [2 marks]
2. Describe price effect with the use of a well labeled figure [18 marks]