



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 14th December, 2020

Time: 11.30am – 1.30pm

KFI 201 - INTERMEDIATE MICROECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) By use of illustrations, define the term budget constraint as you differentiate between budget line and budget set. (10 Marks)
- b) Explain the three assumptions of consumer preferences. (9 Marks)
- c) Given the CD production function, derive the conditional factor demands for each factor that would help the firm to produce the given level of output in the cheapest way. $\text{Min } C = w_1x_1 + w_2x_2$
 st
 $y = x_1^a x_2^b$ (11 Marks)

QUESTION TWO (20 MARKS)

- a) Derive and explain the slope of a budget line. (8 Marks)
- b) Using illustration, derive the profit maximization condition for a competitive market firm. (12 Marks)

QUESTION THREE (20 MARKS)

- a) Using proper diagrams differentiate and explain the shapes of indifference curves for perfect substitutes and imperfect substitutes. (8 Marks)
- b) Using a CD utility function of the form $U(X_1, X_2) = X_1^\alpha X_2^\beta$ obtain the demand functions for the optimal choice bundle. Expenditure function is given by $P_1X_1 + P_2X_2 = M$. (12 Marks)

QUESTION FOUR (20 MARKS)

- a) Using examples, explain the conditions for price discriminating monopolist. (9 Marks)
- b) Illustrate and explain the consumer equilibrium. (11 Marks)

QUESTION FIVE (20 MARKS)

- a) Differentiate between the weak axiom of revealed preference and the strong axiom of revealed preference. (10 Marks)
- b) Demonstrate and explain the inefficiency of monopoly. (10 Marks)