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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.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 $U(X_1X_2) = X_1^{\alpha} X_2^{\beta}$ 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)