UNIVERSITY EXAMINATIONS

2012/ 2013 ACADEMIC YEAR

FOR THE DIPLOMA OF
BUSINESS MANAGEMENT

COURSE CODE: ECO 201   **COURSE TITLE:** INTERMEDIATE MACRO ECONOMICS

DATE: 20th August 2013   **TIME:** .9.00am

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Instructions to Candidates

- Answer all questions in section A and any other two question in Section B

QUESTION ONE

1. (a) Define marginal utility and clearly explain thelaw of diminishing marginal utility
   (6 marks)

   (b) Explain the following
      (i) Cardinalist approach to utility   (2 marks)
      (ii) Ordinalist approach to utility   (2 marks)
      (iii)Consumer surplus   (2 marks)
      (iv)Total utility   (2 marks)

   (c) Explain THREE limitations of the cardinalist approach to utility (6 marks)

2. (a)(i) What is an indifference curve?   (2 marks)
      (ii) Explain the main characteristics of indifference curves   (6 marks)

   (b) (i) Breifly explain two exceptions to the definition of an indifference curve
    (ii) Explain any four applications of the indifference curve analysis   (8 marks)
3. (a) Explain THREE assumptions that underline the law of variable proportions (6 marks)
   (b) Discuss fully the three main stages associated with the law of variable proportions
                                              (9marks)
4. (a) Differentiate between economic of scale and returns to scale   (4 marks)
   (b) Given a form's demand

   Q-90+2P and n+s Average cost function $A=Q^2 + 57 + \frac{2}{Q}$, determine the level of out put
   which maximizes profits (NBI only the first order condition is required (8 marks)
   (c) Explain why a firm in perfect competition may continue production of goods which it
   can only sell if a loss and why it cannot continue doing so indefinitely   (3 marks)
5. (a) Explain THREE features of monopolistic completion   (6 marks)
   (b) With aid o approach diagram, explain the short run and long run equilibrium of a firm
   under monopolistic competition   (9marks)
6. (a) Explain prize discrimination as used in economics   (2 marks)
   (b)Explain five conditions favoring price discrimination   (10marks)
   (c) Outline THREE welfare implication of price discrimination   (3 marks)