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**UNIVERSITY EXAMINATIONS
2023/2024 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS & RESOURCE MANAGEMENT**

COURSE CODE: AEC 212

COURSE TITLE: INTERMEDIATE MICROECONOMICS

DATE: 6TH DECEMBER 2023 **TIME: 2 – 4 PM**

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other two (2) Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over



Q1.

- a) Suppose the inverse demand curve function (expressed in Ksh.) of apples is given as

$$P=80-q$$

$$TC=0$$

Where;

p=price of the product

q=is the quantity demanded in two time periods,

TC=Total cost of production

The price of quantity demanded in time period one=Ksh. 1 per unit

The price of quantity demanded in time period two=Ksh. 1 per unit

Total amount to be spent for the entire period =80

Required

- i) Determine equilibrium price for period one and two respectively (6 marks)
- ii) Determine the optimal quantities that will be demanded in period one and two respectively (6 marks)
- b) Differentiate between economies of scale and returns to scale (4 marks)
- c) Write short notes on the following:
- i) "bad" and "neutral" goods (4 marks)
- ii) Budget line (2 marks)
- iii) Cardinal and ordinal utility (4 marks)
- iv) Producer and consumer surplus (4 marks)

Q2.

- a) Using the cardinalist approach of consumer behavior, distinguish between income and substitution effects of a price rise for a normal good (10 marks)
- b) Explain the factors influencing supply for factors of production (10 marks)

Q3.

- a) Explain the properties of indifference curves (10 marks)
- b) Explain the characteristics of monopolistic competition (10 marks)

Q4.

- a) The table below represents a production function for a commodity x where capital is fixed and labour is variable.

Quantity of labour	Total Physical product (tons of x)
0	0
1	15
2	34
3	48
4	60
5	62

Required

- i) Draw the marginal product for labor curve. **(5 marks)**
ii) Plot average product for labor curve **(5 marks)**
- (b) With the aid of a well labeled graph, show how a consumer equilibrium is achieved in a “two persons exchange economy” **(10 marks)**

Q5.

- a) Citing relevant examples, explain the assumptions of the law of variable proportions **(8 marks)**
- b) With the aid of a diagram, illustrate and explain the three stages associated with the law of variable proportions. **(12 marks)**