College of Business, Peace, Leadership and Governance

NMEC 201: INTERMEDIATE MICROECONOMICS

END OF FIRST SEMESTER EXAMINATIONS

MAY 20223

LECTURER: Mr Mandewo

INSTRUCTIONS

Answer **ALL questions** in **Section A and Any other TWO questions in Section B.**
Total possible mark is **100.**

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the question.

SECTION A (Answer all questions)

1. (a) Explain the relationship between costs in the short run and costs in the long run. In your answer define what the "short run" means. **(5 Marks)**

(b) List two factors that affect how price-elastic demand for a particular good is at a moment in time and explain **(5 Marks)**

(c) Define what is a long-run equilibrium in a perfectly competitive, endowment economy. **(5 Marks)**

2. (a) Cournot duopolists face a market demand curve given by P = 90 - Q, where Q is total market demand in units. Each firm can produce output at a constant marginal cost of $30/unit. a. What is the equilibrium price and quantity produced by each firm? **(5 Marks)**

(b) The firms merge and realise they can serve a new market that has a demand curve $P = 50 - 1\,2\,Q$. Call this Market A and the other Market B. Consumers aren't capable of arbitrage. What is the profit maximizing strategy of the monopolist? **(5 Marks)**

(c) Rank the following market structures in terms of the highest equilibrium price to the lowest: perfect competition, Stackleberg competition, monopoly, Cournot competition, Bertrand competition, shared monopoly **(5 Marks)**

3. Substitution effect and Income effect can be separated using two distinct methods. Using diagram demonstrate the two methods. **(10 Marks)**

SECTION B (Answer any two questions)

3. The budget constraint captures all the information about prices and income. In the context of static analysis illustrate the budget constraint and discuss how it captures the options at the disposal of a consumer. You should introduce dynamic analysis into the budget constraint. In each case you need to suggest the economic intuition behind the changes. Illustrate the effect of introducing taxes and subsidies to the budget. What will happen to the budget constraint if commodities are in short supply and there is rationing? You need to come up with practical life situations. **(30 Marks)**

4. Consumer preferences can be captured using graphs. Appealing to the properties of indifference curves, explain how they capture consumer behaviour. Explain preferences of other goods. You need to be exhaustive in your explanation. You also need to give practical original examples. Of what relevance is the knowledge of consumer preferences to a business person? **(30 Marks)**

5. Determination of the ultimate choice of a bundle is very important. Illustrate how consumers make a choice by appealing to the budget constraint. You are required to determine choices for all kinds of preferences. Justify why the preferences behaviour in that manner. Use concrete examples to illustrate the concepts. Furthermore, introduce taxes. **(30 Marks)**