



A F R I C A

UNIVERSITY

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMEC 306: ADVANCED MICROECONOMICS

END OF SEMESTER EXAMINATIONS

NOVEMBER 2024

LECTURER: MR G. MANDEWO

TIME: 3 HOURS

INSTRUCTIONS

1. This paper contains **Six** questions.
2. Answer **Four** questions.
3. Start each question on a new page.

1. There are many axioms of preferences, each axiom is capturing actual consumer behaviours.
 - (a) Outline the axioms of preference and explain how each shapes rational human behaviours. **[10 Marks]**
 - (b) Explore the different types of goods and illustrate and explain the related preference relations. For each give concrete examples and economic intuition behind. **[15 Marks]**

2. (a) What is the ultimate consumer problem? **[5 Marks]**
 - (b) How would you attain maximisation of consumer preferences using both the constrained optimisation and the intuition method? [**You may use a numerical example of your own**] **[10 Marks]**
 - (c) You are required to explain the economic intuition behind each step and the related implications. Use your own concrete examples. **[5 Marks]**
 - (d) How do we minimise cost? **[5 Marks]**

3. Illustrate and explain the following concepts
 - (a) Pareto efficiency **[5 Marks]**
 - (b) First Theorem of Welfare Economics **[5 Marks]**
 - (c) Second Theorem of Welfare Economics **[5 Marks]**
 - (d) Combination of exchange and production conditions in General Equilibrium Analysis **[5 Marks]**
 - (e) Welfare maximisation in the context of an Edgeworth Box **[5 Marks]**

4. (a) Using concrete examples explain the concept of information asymmetry **[5 Marks]**
 - (b) In what ways does Adverse Selection and Moral hazard affect business efficiency? **[5 Marks]**
 - (c) Demonstrate the ultimate outcome of the interaction of buyers and sellers in the presence of Adverse (appeal to Game theory) **[10 Marks]**
 - (d) Suggest solutions to post-contractual opportunistic behaviour and demonstrate how it reduces the risk **[5 Marks]**

5. (a) Explain in detail the problems that partial equilibrium analysis solve **[5 Marks]**
 - (b) Illustrate a Pareto improvement in production and consumption **[5 Marks]**
 - (c) Consumer and producer surplus are important business concepts. Demonstrate how a business can exploit these concepts to enhance profits. **[7 Marks]**
 - (d) Partial equilibrium analysis is the basis for most economic analysis. Using practical examples shows how partial equilibrium is applied in the market. **[8 Marks]**

6. (a) Profit maximisation is a dual problem. Illustrate algebraically how profit can be maximised **[5 Marks]**

- (b) Consumers and Producers have different motives in the market. Using an example of your own choice demonstrate how market equilibrium is attained.
[5 Marks]
- (c) Discuss the implications of the properties of production functions to business
[5 Marks]
- (d) Illustrate the relationship among Costs, Revenues, Profits and production functions **[10 Marks]**

END OF EXAMINATION