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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 9th December, 2022
Time: 2.30pm –4.30pm

KFI 201 - INTERMEDIATE MICRO – ECONOMIC THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

Read the extract below and answer the questions below

PRODUCTION AND SALES AT MIGOMBANI FIRM

Migombani limited is a monopolistic firm which has been in operation for the past 15 years. Before the covid-19 pandemic, the textile firm's sales exceeded the cost of production by 20,000 Kenyan Shillings. However, during the pandemic, the director noticed the cost of production exceeded that of   sales   by 10,000 Kenyan shillings. The firm has been recuperating from the effects of the pandemic in the last one year. However, the cost benefit analysis of the firm still shows that currently, the firm's sales equal its cost of production. To steer the firm operations to pre-pandemic status, Mr. Munyao the firm director decided to employ strategies that enhance marketing of their products. The firm is equally keen on reducing any forms of friction between them and the buyers of their products to increase sales and regain the pre-Covid profit margins. The managing director Mr. Munyao has engaged an external consultant to advise on a suitable production function which the firm can use to predict future profits. The consultant has advised on the following model TR $=700Q- 8Q^2$ and TC $=Q^2+ 16Q + 50$.

a)   Explain the three types of profit- related operations outcome Migombani firm has experienced during their period of existence   (6 Marks)
b)   Examine the possible causes of friction between Migombani firm and the buyers of their products
                                                                                                                          (8 Marks)
c)   Determine the fixed cost   (2 Marks)
d)   Determine variable cost   (2 Marks)
e)   Determine marginal cost   (3 Marks
f)   Determine the;
      i)   Quantity to be produced and   (5 Marks)
      ii)   Possible future profits   (4 Marks)

QUESTION TWO (20 MARKS)

a) Explain four economic effects of oligopoly

(8 Marks)

b) Compensation tests are based on several restrictive assumptions. Explain.

(6 Marks)

c) You have been invited by your County government to take part in in a committee that forms regulations to control monopoly in the county. Discuss four recommendations you would give

(6 Marks)

QUESTION THREE (20 MARKS)

a) A monopolistic firm incurs the following *TR* and *TC* functions during production
$TR = 20Q - 3Q^2$
$TC = 2Q^2$

   i) Determine the output level that will maximize profit (7 Marks)

   ii) Determine the price at which profit is maximized (4 Marks)

   iii) Determine the profits at this level (4 Marks)

b) Outline the characteristics of a perfectly competitive market (5 Marks)

QUESTION FOUR (20 MARKS)

a) Describe five properties of game theory

(10 Marks)

b) Explain the concept of externalities under the following headings

   i) Definition of externalities

   ii) Four public and private sector solutions to externalities (8 Marks)

QUESTION FIVE (20 MARKS)

a) Ricardian theory of rent has received several criticisms. Discuss

(9 Marks)

b) Explain the three degrees of price discrimination

(6 Marks)

c) The County government of Turkana is currently struggling with maintaining its operations due to labor shortage. What are the possible reasons for this?

(5 Marks)