Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

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: 4th August, 2022
Time: 11.30am – 1.30pm

KFI 201 - INTERMEDIATE MICRO ECONOMICS THEORY

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Using a CD utility function of the form $U(X_1X_2) = X_1^{\beta}X_2^{\alpha}$ obtain the demand functions for the optimal choice bundle. Expenditure function is given by $P_1X_1+P_2X_2 = M$. (12 Marks)

b) By use of illustrations, define the term budget constraint as you differentiate between budget line and budget set. (10 Marks)

c) Illustrate and explain the consumer equilibrium. (8 Marks)

QUESTION TWO (20 MARKS)

a) Derive and explain the slope of a budget line. (8 Marks)

b) Using illustration, derive the profit maximization condition for a competitive market firm. (12 Marks)

QUESTION THREE (20 MARKS)

a) Using proper diagrams differentiate and explain the different shapes of indifference curves. (14 marks)

b) Explain the three assumptions of consumer preferences. (6 Marks)

QUESTION FOUR (20 MARKS)

a) Using examples, explain the conditions for price discriminating monopolist. (9 Marks)

b) Given the CD production function, derive the conditional factor demands for each factor that would help the firm to produce the given level of output in the cheapest way.

Min $C = w_1x_1 + w_2x_2$

st

$y = x_1^{\alpha} x_2^{\beta}$ (11 Marks)

QUESTION FIVE (20 MARKS)

a) Differentiate between the weak axiom of revealed preference and the strong axiom of revealed preference. (10 Marks)

b) Demonstrate a Pareto efficient allocation that makes each agent as well-off as possible given the utility of the other agent. (10 Marks)