UGANDA MARTYRS UNIVERSITY
NKOZI

FACULTY OF SCIENCE

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY/SPECIAL EXAMINATIONS

UNIVERSITY EXAMINATIONS
AUGUST 2014

YEAR THREE: ECON & GEN

ADVANCED MICRO ECONOMICS
ECO: 3101

* DATE: 8TH AUGUST 2014

TIME: 2:00 – 5:00 PM

DURATION: 3 HRS

Instructions:

i) *Attempt four Questions*
ii) *Well argued and illustrated answers will earn more marks*

1. Distinguish clearly between diminishing marginal products and diminishing technical rate of substitution. How do different returns to scale arise?

2. How does a producer maximize his profit in the
   (a) Short run; and
   (b) Long run?
   What are the possible reasons why constant returns to scale cannot be sustainable in the long run?

3. Demonstrate how different returns to scale can result into different cost functions in the production process.

4. Derive an average total cost curve in the production process. If we assume that a producer produces in order to maximize his profits, how come that we say the same producer produce and maximizes his profits at zero profits?

5. Suppose the government asked you to choose between imposing a quantity tax on the commodity you regularly buy or an increase in the tax rate on your income which would yield the same tax revenue to it, which one would you choose and why?

6. What is the difference between a monopoly market and a monopolistic competitive market? How does each type of market arise?

7. Demonstrate that a linear market demand curve does not have the same elasticity throughout its length.

END