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## OLABISI ONABANJO UNIVERSITY, AGO-IWOYE, NIGERIA FACULTY OF SOCIAL AND MANAGEMENT SCIENCES DEPARTMENT OF ECONOMICS

2010/2011 HARMATTAN SEMESTER EXAMINATIONS
Course Code and Title: ECO 301- INTERMEDIATE MICROECONOMICS

Instruction: Attempt all questions in Sections A and B and follow instruction given in Section C.

Time Allowed: 2 Hrs.

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non A:	Pin in the blanks
(i)	The slope of the budget line measures the rate at which the market is willing to
	SWSIAM. good 1 for good 2.
(ii)	The axiom of applies if any bundle is certainly as good as
	identical bundle.
(iii)	When two indifference curves meet; the axiom of is violated.
(iv)	When a commodity is a bad, it is said to be monotonically
(v)	Given that $Y = 2K^2 + 3L^2 + 4KL$ , the type of production function specified above is linear Production function.
(vi)	The Average Variable Cost (AFC) is in nature, because it falls
	as output increases, but never touches the horizontal axis.
(vii)	The AP <sub>L</sub> will remain positive as long as TP <sub>L</sub> is
(viii)	If the utility function is the primal, the expenditure function will be the
(ix)_	The returns to scale operates when all factors are
(x)	The area under the marginal cost curve measures the cost.

## Section B: Answer True (T), False (F) or Ambiguous (A). Do not answer Yes or No.

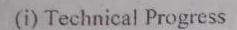
Support your answers with appropriate explanation graphically, mathematically or otherwise.

- (i) The ordinary demand curve is always downward sloping.
- (ii) The degree of homogeneity of ordinary demand function is one in both prices and income.
- (iii) Increasing returns to scale implies decreasing average cost.
- (iv) In the short run analysis, the variable cost curve starts from the origin.
- (v) When the MP<sub>L</sub> and AP<sub>L</sub> meet, the TP<sub>L</sub> is at the maximum.
- (vi) A giffen good is different from an inferior good.
- (vii) The ratio of the Average Product to Total Product of an input defines the output elasticity of an input.
- (viii) The price elasticity of demand for a necessary good is always inelastic.

- The indifference curve in the theory of consumer behaviour is analogous to (ix) isoquant in the production theory.
- There is no clear-cut difference between monopoly and monopolistic competition (X) forms of market structure.

## SECTION C: Answer question 1 or 2 AND question 3 or 4.

- I(a) Highlight the basic assumptions of the perfect competition.
- (b) Are these assumptions realistic in the real world situation? Justify
- 2. Write short notes on the following, paying particular attention to their significance in Alburghouse People Conspections economics. When we longe Hunbert of brigers of Setter



- (ii) Axiom of rationality
- (iii) The law of diminishing returns
- (iv) Homogeneous production function
- 3. Given the utility function  $-U=X^2+Y^2$

Theono a continue of goods Info and a the market from its in proce Taker. It to been the proce ductanted by the proces of downer of in I happy as s.t.  $P_XX + P_YY = M$ (i) Determine the indifference curve. (ii) Obtain the Marginal Rate of Substitution between the two commodities (iii) Obtain the ordinary demand functions for the two commodities.

4. If a firm production function is as specified below  $Y = L^{0.3} + K^{0.3}$ 

- (i) Show that the marginal productivity of each input is diminishing
- (ii) Determine the output elasticity of each of the factor input.
- (iii) Determine if this production function exhibits increasing, constant or decreasing returns to scale.

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