

BOWEN UNIVERSITY
COLLEGE OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
B.Sc. DEGREE EXAMINATION

FIRST SEMESTER, 2020/2021 Academic session (Part II Examination, 30 marks)

Course Code: ECN 410 (3 credits)
ANSWER ALL QUESTIONS

Course Title: Microeconomic Theory II
Time Allowed: 1 hour

- 1a. In the application of consumer theory to work and leisure, it is evident that individuals do not obtain utility just from products they purchase, they also obtain utility from leisure time. In line with this position provide clear explanation to the substitution and income effect of a rise in wage rate. (5 marks)
- 1b. It has been empirically observed that when the wage rate is small so that the demand for more income or goods and services is very strong, substitution effect is larger than the income effect. How will the net effect of a rise in wage rate in this case affect leisure time and the supply of labor? (5 marks)
2. Returns to scale is a phenomenon that can be observed in the production process of the firm only in the long run.
 - 2a. Provide clear explanation to one reason why firms experience a case of increasing returns to scale and for decreasing returns to scale. (2 marks)
 - 2b. The elasticity of substitution explains how the relative expenditure on goods or factor inputs changes as relative prices change. Explain the nature of substitutability between factor inputs when the degree of elasticity is equal to
 - i. Zero (2 marks)
 - ii. Between zero and infinity (2 marks)
 - iii. Infinity (2 marks)
 - 2c. State any two properties of a Cobb Douglas technology (2 marks)
3. Monopolistic competition is a market structure which combines elements of monopoly and competitive markets.
 - a. State the condition for short and long run profit maximization in a monopolistic competitive market. (2 marks)
 - b. How is the model of monopolistic competition different from a monopolistic market and a perfect competitive market? (2 marks)
 - c. Explain the new trade theory in relation to a monopolistic competitive market (2 marks)
 - d. Briefly explain the marginal productivity theory and the modern theory of distribution in relation to the organization of the firm (4 marks)