



**HEBERT CHITEPO SCHOOL OF LAW AND BUSINESS
SCIENCES**

DEPARTMENT OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE DEGREE

LEVEL 4 SEMESTER 1

EXAMINATION QUESTION PAPER

MODULE CODE

HEC418

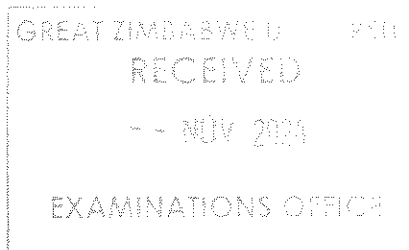
MODULE NARRATION

MICROECONOMICS 2

DATE

DURATION

3 HOURS



INSTRUCTIONS TO CANDIDATES:

1. Answer any four questions
2. All questions carry equal marks
3. Start each answer on a fresh page
4. Show all workings, where applicable

QUESTION 1

(a) Use binary relations to express the following;

(i) Strict preference [3 marks]

(ii) Indifference preference [3 marks]

(iii) 'At least as good as' preference. [3 marks]

(b) Explain the relationship between the preferences in (a) above. [4 marks]

(c) Discuss the properties of;

(i) Preferences [6 marks]

(ii) Utility functions. [6 marks]

[Total 25 marks]

QUESTION 2

Using relevant examples write brief notes on the following terms:

(a) Indirect utility function. [5 marks]

(b) Hicksian demand function. [5 marks]

(c) Expenditure function. [5 marks]

(d) Cost function. [5 marks]

(e) Competitive budgets. [5 marks]

[Total 25 marks]

QUESTION 3

Using relevant examples, explain the following terms used in information economics;

(a) Separating equilibrium. [5 marks]

(b) Pooling equilibrium. [5 marks]

(c) Adverse selection. [5 marks]

(d) Lemmon's market [5 marks]

(e) Moral hazard. [5 marks]

[Total 25 marks]

QUESTION 4

(a) Using medical insurance market as an example, show the differences between separating equilibrium and pooling equilibrium. [15 marks]

(b) With reference to the medical insurance market in Zimbabwe, suggest solutions to the problem of information asymmetry. [10 marks]

[Total 25 marks]

QUESTION 5

(a) Two hunters are on a stag hunt. They split up in the forest and each has two strategies: hunt for a stag (S), or give up the stag hunt and instead hunt for rabbit (R). If they both hunt for a stag, they will succeed and each earn a payoff of 9. If one hunts for stag and the other gives up and hunts for rabbit, the stag hunter receives 0 and the rabbit hunter 8. If both hunt for rabbit then each receives 7. The outcomes of this game are shown below.

	S	R
S	9, 9	0, 8
R	8, 0	7, 7

(i) Compute all Nash equilibria for this game [5 marks]

(ii) Which of these equilibria do you think is most likely to be played? Give reasons.

[5 marks]

(b) Discuss the implications of game theory in the context of international trade. [15 marks]

[Total 25 marks]

END OF EXAMINATION