



**2nd SEM. 2005/2006**

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**UNIVERSITY OF SWAZILAND**

**FINAL EXAMINATION PAPER**

**PROGRAMME: DIPLOMA IN AGRICULTURAL EDUCATION YEAR I  
DIPLOMA IN AGRICULTURE YEAR I  
DIPLOMA IN HOME ECONOMICS YEAR I  
DIPLOMA IN HOME ECONOMICS  
EDUCATION YEAR I**

**REMEDIAL IN AGRICULTURAL EDUCATION  
REMEDIAL IN AGRICULTURE  
REMEDIAL IN HOME ECONOMICS  
REMEDIAL IN HOME ECONOMICS EDUCATION**

**COURSE CODE: AEM 103**

**TITLE OF PAPER: PRINCIPLES OF ECONOMICS**

**TIME ALLOWED: TWO (2) HOURS**

- INSTRUCTION: 1. ANSWER QUESTION ONE AND CHOOSE ANY OTHER TWO FROM THE REMAINING THREE QUESTIONS.**
- 2. QUESTION ONE CARRIES FORTY (40) MARKS AND THE REMAINING QUESTIONS THIRTY MARKS EACH.**

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**Question 1**

(a) Suppose a farmer initially produces 40 bags of maize at an average total cost of E400.00 each. The farmer then increases production of maize to 42 bags. The production of the additional 2 bags reduces the average total cost to E390.00. What is the marginal cost of each of the additional bag of maize? **8 MARKS**

(b) Explain with the help of appropriate diagrams the effect that a fall in price of good X may have on the equilibrium price and quantity of good Y consumed. **10 MARKS**

(c) Explain what the price elasticity of demand refers to and provide the main determinants of price elasticity of demand. **10 MARKS**

(d) Give three reasons for a decrease in the supply of good Y. **6 MARKS**

(e) (i) A person's salary increases from E5000 a month to E7000 a month. As a result of this change in salary his consumption of good X decreases from 20 units per month to 15 units per month while the consumption of good Y increases from 15 units per month to 20 units per month. Give the appropriate comment. **3 MARKS**

(ii) When price falls from E10.00 to E8.00 the quantity demanded of a given good rises from 20 to 25. Comment on the price elasticity of demand. **3 MARKS**

**Question 2**

(a) Explain the main functions and characteristics of money **12 MARKS**

(b) Distinguish between labour and the entrepreneur as economic resources of production. **12 MARKS**

(c) Explain the difference between working and fixed capital **6 MARKS**

**Question 3**

(a) Briefly explain how profit differs from the other payments to the factors of production. **10 MARKS**

(b) With a simple example explain why marginal cost must equal marginal variable cost. **10 MARKS**

(c) With help of well labeled diagrams explain the effects of floor and ceiling prices **10 MARKS**

**Question 4**

(a) Explain with aid of diagrams the existence of supernormal profits and eventually normal profits in a perfectly competitive industry. **12 MARKS**

(b) Explain the main characteristics of perfect competition and pure monopoly **18 MARKS**