



**2<sup>nd</sup> SEM. 2006/2007**

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**UNIVERSITY OF SWAZILAND**

**FINAL EXAMINATION PAPER**

**PROGRAMME:** BSc. in Agricultural Economics and Agribusiness  
Management Year I  
BSc. in Agricultural Education Year I  
BSc. in Agronomy Year I  
BSc. in Animal Science Year I  
BSc. in Food Science, Nutrition and Technology Year I  
BSc. in Home Economics Year I  
BSc. in Home Economics Education Year I  
BSc. in Horticulture Year I  
BSc. in Land and Water Management Year I  
BSc. in Textiles Apparel Design and Management Year I

**COURSE CODE: AEM 104**

**TITLE OF PAPER: PRINCIPLES OF ECONOMICS**

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

**INSTRUCTION: 1. ANSWER ALL QUESTIONS**  
**2. EACH QUESTION CARRIES TWENTY FIVE (25) MARKS**

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THE CHIEF INVIGILATOR**

**QUESTION ONE**

- (a) What is money. **5 MARKS**
- (b) Explain the disadvantages of barter **5 MARKS**
- (c) In choosing an item to serve as money, the most important characteristic should be **2 MARKS**  
 A: divisible B issued by the government C: easily recognizable D: generally acceptable
- (d) Which function of money is the ability to assess costs most dependent on? **3 MARKS**  
 A: medium of exchange B: unit of account C: store of value D: standard for deferred payment.
- (e) Define effective demand **5 MARKS**
- (f) Explain three factors that may increase demand **5 MARKS**

**QUESTION TWO**

- (a) Which of the following would cause the demand curve for the good to shift to the left? **2 MARKS**  
 A: a rise in the price of the good B: an increase in the supply of the good C: a decrease in price of a substitute D: a decrease in the tax imposed by the government on the good.
- (b) A rise in income results in the increase in quantity demanded. This is true for which types of goods? **2 MARKS**  
 A: inferior B: superior C: normal D: none of these goods
- (c) What type of goods have:  
 (i) negative price elasticity of demand **1 MARK**  
 (ii) negative cross price elasticity of demand **1 MARK**  
 (iii) negative income elasticity of demand. **1 MARK**
- (d) A good has unit price elasticity of demand. What will decrease as a result of an increase in the price of the good? **2 MARKS**  
 A: quantity demanded B: quantity supplied C: expenditure on substitutes  
 D: expenditure on the good
- (e). Explain three factors that may decrease supply. **3 MARKS**
- (f) Explain why price elasticity of supply is usually positive **3 MARKS**
- (g) Which would cause the supply curve of wheat to shift to the right? **2 MARKS**  
 A: arise in income B: a subsidy given to wheat producers  
 C: a rise in the price of wheat D: a rise in the price of maize

- (h) Explain what is meant by equilibrium price. **2 MARKS**
- (i) What will be the outcome if price is set above the equilibrium? **3 MARKS**
- (j) What effect will an increase in supply have on price and demand? **3 MARKS**

**QUESTION THREE**

- (a) What effect will a decrease in demand have on price and supply? **3 MARKS**
- (b) You are given the following demand and supply schedules for beef:

Price:	120	100	90	80	70
Quantity demanded:	4	20	40	65	95
Quantity supplied:	80	50	40	18	4

- (i) What is equilibrium price? **2 MARKS**
- (ii) What would be unsold surplus if price is set at 120? **3 MARKS**
- (iii) At what price will there be a shortage of 47 kgs of beef? **4 MARKS**
- (c) Giving examples, explain which types of goods are:
  - (i) in joint demand **3 MARKS**
  - (ii) in joint supply **3 MARKS**
- (d) Distinguish with examples, between a firm's fixed and variable costs **4 MARKS**
- (e) What is the difference between the short-run and long-run? **3 MARKS**

**QUESTION FOUR**

- (a) A firm initially produces 20 tons of maize at an average total cost of E8000 per ton. It then increases production to 21 tons. The production of the additional ton reduces the average total cost to E7900. What is the marginal cost of the additional ton? **6 MARKS**
  - (b) Do consumers have choice in a perfectly competitive market? A: yes B: no **1 MARK**
  - (c) Which of the following may be found under conditions of perfect competition? **3 MARKS**  
 A: advertising B: differentiated products C: purchase of a new tractor D: different prices charged to different groups of consumers.
  - (d) A perfectly competitive firm is producing where marginal revenue exceeds marginal cost. To maximize profit what should it do? **3 MARKS**
- |    |                |                 |
|----|----------------|-----------------|
|    | <b>PRICE</b>   | <b>QUANTITY</b> |
| A: | increase       | reduce          |
| B: | reduce         | keep unchanged  |
| C: | keep unchanged | increase        |
| D: | reduce         | increase        |

(e) Price of X	Quantity of X Demanded	Price of Y	Quantity of Y Demanded
2	10	20	10
4	6	40	6

Calculate the respective elasticities and state which commodity is more elastic  
**5 MARKS**

(f) Price of X	Quantity of Y	Quantity of Z
4	6	10
2	10	6

What is the relationship between X and Y and between X and Z? **2 MARKS**

(g) With help of diagrams comment on the effects of a price ceiling and price floor.  
**5 MARKS**