



SUPPLEMENTARY 2006/2007

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UNIVERSITY OF SWAZILAND

SUPPLEMENTARY 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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QUESTION ONE

- (a) Define effective demand **10 MARKS**
 (b) Explain three factors that may increase demand **15 MARKS**

QUESTION TWO

- (a) Which of the following would cause the demand curve for the good to shift to the left? **6 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

- (b) A rise in income results in the increase in quantity demanded. This is true for which types of goods? **6 MARKS**

A: inferior B: normal C: none of these goods

- (c) A good has unit price elasticity of demand. What will decrease as a result of an increase in the price of the good? **6 MARKS**

A: quantity demanded B: quantity supplied

- (d) Explain why price elasticity of supply is usually positive **4 MARKS**

- (e) Which would cause the supply curve of wheat to shift to the right? **3 MARKS**
 A: arise in income B: a subsidy given to wheat producers

QUESTION THREE

- (a) 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 the equilibrium price? **6 MARKS**
 (ii) What would be unsold surplus if price is set at 120? **6 MARKS**

- (b) What is the difference between the short-run and long-run? **6 MARKS**

- (c) 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?

7 MARKS

QUESTION FOUR

(a) If a perfectly competitive firm is producing where marginal revenue exceeds marginal cost, what should it do to maximize profit ? **6 MARKS**

	PRICE	QUANTITY
A:	increase	reduce
B:	reduce	keep unchanged
C:	keep unchanged	increase
D:	reduce	increase

(b) Price of Beans	Quantity of Beans Demanded	Price of Maize	Quantity of Maize Demanded
2	10	20	10
4	6	40	6

Calculate the price elasticities of beans and maize and compare the two elasticities. **7 MARKS**

(c) With help of diagrams comment on the effects of a price ceiling and price floor. **12 MARKS**