



2nd SEM. 2006/2007

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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: B.Sc. in Agricultural Economics and Agribusiness Management

COURSE CODE: AEM 306

TITLE OF PAPER: INTERMEDIATE MICROECONOMICS

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) Rather than go out to eat by yourself at Debonnairs, you decide to stay at home and prepare the dinner for yourself and your two best friends. One of the two friends tells you that your decision to eat at home has no opportunity cost because you already have all the dinner ingredients at your house. Is this statement correct? **3 MARKS**
- (b) If the price of a two-liter bottle of Fanta is E10.50 today just like it was 5 years ago, can one safely say that all supply and demand conditions in the market for Fanta, have remained stable all the years? **12 MARKS**
- (c) Will an increase in the minimum wage create more unemployment if the supply and demand for labour is highly elastic? **5 MARKS**
- (d) Suppose the government imposes a price ceiling that is less than the equilibrium. Discuss the effect, if any, on the price and quantity if the government later removes the price ceiling. **5 MARKS**

QUESTION TWO

- (a) What factors determine the magnitude of the price elasticity of demand? **7 MARKS**
- (b) Why does the problem of the big trade-off arise when the government engages in the process of distributing income and transfers? **9 MARKS**
- (c) Explain the relationship between the incidence of a tax and elasticity. **9 MARKS**

QUESTION THREE

- (a) Explain why total utility is maximized when the marginal utility per lilangeni spent on all goods is equal. **10 MARKS**
- (b) What is marginal rate of substitution and how does it relate to an indifference curve? **9 MARKS**
- (c) What is the difference between a normal profit and an economic profit? **6 MARKS**

QUESTION FOUR

- (a) Describe the relationship between the marginal and average products of labour as the employment of labour increases in the short run. **6 MARKS**
- (b) Explain how new technologies which increase productivity, affect the average variable cost, average total cost and marginal cost curves. **12 MARKS**
- (c) Explain the process that drives the economic profit to zero in the long run for a perfectly competitive firm. **7 MARKS**