



2nd SEM. 2008/2009

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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

**PROGRAMME: B.Sc. in Agricultural Economics and Agribusiness Management
Year III**

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) A student can spend the next hour studying for an intermediate microeconomics test, hiking along the Manzini Lavumisa highway, watching a rerun of Kusa Kusa on Swazi television, or sleeping. If the student decides to study, what is the opportunity cost of her choice: hiking, watching television, or sleeping? **5 MARKS**

(b) In Country X, the bottling law requires that people get a refund of one lilangeni when they return an empty bottle. Why does the state pay people to return bottles? **5 MARKS**

(c) What do economists mean when they discuss “scarcity”? **5 MARKS**

(d) Compare and contrast production efficiency and allocative efficiency. **10 MARKS**

Question Two

(a) One of the newly elected Member of Parliament has stated that Swaziland has an absolute advantage in producing commodity X over all of the other countries producing it. The same Member of Parliament then states that Swaziland should not import any amount of commodity X from the other countries. Do you agree or disagree with the last statement made by the member of Parliament? Explain your answer. **8 MARKS**

(b) How do property rights help organize production and trade? **4 MARKS**

(c) What is the difference between a money price and a relative price? When the demand and supply model predicts that the price of sugar will rise, is the model predicting that the money price rises or the relative price rises? **7 MARKS**

(d) Personal computers are becoming less expensive as new technology reduces the cost of production. In a supply and demand model, explain the effects of the technological innovations and their effect on the quantity of computers. **6 MARKS**

Question Three

(a) If the equilibrium relative price for a two-liter bottle of Sprite is E15 today, just like it was 8 years ago, can we safely say that all supply and demand conditions in the market for Sprite have remained very stable all these years? **7 MARKS**

(b) What factors determine the magnitude of the price elasticity of demand? **6 MARKS**

(c) When a tax is imposed on sellers of a good, the resulting rise in the equilibrium price is usually less than the amount of the tax itself. Why doesn't the equilibrium rise by the full amount of the tax? **12 MARKS**

Question Four

What are some of the potential obstacles that can prevent a market from reaching the efficient outcome? Briefly explain each obstacle. **13 MARKS**

(b) Explain why total utility is maximized when the marginal utility per dollar spent on all goods is equal. **12 MARKS**