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UNIVERSITY OF SWAZILAND

SUPPLEMENTARY EXAMINATION PAPER

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

COURSE CODE: AEM 204/306

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) "Allocative efficiency in the production of cherries means that consumers can eat all of the cherries they desire." Is this statement true or false? **12 MARKS**

(b) 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**

(c) Your friend is preparing for his exam and in your practice session makes the following statement: "instead of attending microeconomics class for two hours, Dlamini could have played soccer or watched a movie. Therefore the opportunity cost of attending microeconomics class is the soccer and movie she had to give up". Is your friend's analysis correct or not? Explain your answer. **5 MARKS**

Question Two

(a) 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? **5 MARKS**

(b) 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**

(c) Explain the factors that change demand and shift the demand curve. Explain what happens to demand and the demand curve when there is an increase/decrease in the factor.

8 MARKS

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

6 MARKS**Question Three**

(a) Which curve is the same as the demand curve and why are the curves the same? **7 MARKS**

(b) In Costa Rica, the canning law requires that people get a refund of one lilangeni when they return an empty can. Explain why the people are paid to return cans?

4 MARKS

(c) What do economists mean when they discuss "scarcity"?

4 MARKS

(d) Can price ceilings and price floors interfere with the efficient quantity of a good being produced? **4 MARKS**

(e) Explain the difference between the words “value,” “price,” and “cost.” **6 MARKS**

Question Four

The table below shows the demand and supply schedules for the market for tobacco in country X. A tax on tobacco of E1.00 per kg on suppliers is proposed and the government asks you to examine the effects of this tax.

Price (Emalangi per kg)	Quantity demanded(kgs per week)	Quantity supplied(kgs per week)
1	160	0
2	120	40
3	80	80
4	40	120
5	0	160

- (i) Draw the demand and supply curves. If there is no tax on tobacco, what is the price and how many kgs are sold? **5 MARKS**
- (ii) With the tax, what is the price that consumers pay? What is the take home price that sellers receive? How many kgs of tobacco are sold? **5 MARKS**
- (iii) What is the government’s total tax revenue? How much of the E1.00 per kg tax is paid by the buyers? How much is paid by sellers? **5 MARKS**
- (iv) If there are no external costs and benefits, what is the efficient level of tobacco production? **5 MARKS**
- (v) When the tax is imposed, will the level of production be efficient? Why or why not? **5 MARKS**