



2nd SEM. 2010/2011

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME:

BSc. in Agricultural and Biosystems Engineering Yr 1
BSc. in Agricultural Economics and Agribusiness
Management Yr 1
BSc. in Agricultural Education Yr 1
BSc. in Agronomy Yr 1
BSc. in Animal Science Yr 1
BSc. in Consumer Sciences Yr 1
BSc. in Consumer Science Education Yr 1
BSc. in Food Science, Nutrition and Technology Yr 1
BSc. in Horticulture Yr 1
BSc. in Textiles Apparel Design and Management Yr 1

COURSE CODE: AEM 103

TITLE OF PAPER: PRINCIPLES OF ECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1. ANSWER ALL QUESTIONS**
- 2. EACH QUESTION CARRIES 25 MARKS**
- 3. SHOW ALL YOUR WORKING**
- 4. EXPLAIN YOUR GRAPHS**

**DO NOT OPEN THIS PAPER UNTIL PERMISSION HAS BEEN GRANTED BY
THE CHIEF INVIGILATOR**

Question 1

- (a) With the help of a well labelled diagram, explain a price floor (12 marks)
- (b) Using the aid of a well labelled diagram, explain a situation whereby a product has a perfectly inelastic demand (8 marks)
- (c) With the help of a well labelled diagram, discuss a production function which represents diminishing returns (5 Marks)

Question 2

- (a) In what type of market is a firm able to charge different prices for the same product? What is this situation called, and what are the two conditions that favour its existence? (8 marks)
- (b) Consider the following straight line demand and supply curves
- | | |
|------------------|--|
| $Q_d = 200 - 8P$ | $Q_d =$ quantity demanded; $P =$ price |
| $Q_s = 8 + 8P$ | $Q_s =$ quantity supplied; $P =$ price |
- i) For values of $P = 12, 14$ and 22 , calculate the quantities demanded and supplied. (6 marks)
- ii) Calculate the equilibrium price and quantity (6 marks)
- (c) You want to enjoy a meal out and you have E200 to spend. The return cab fare is E20 and dinner with set you back E50. Use a well labelled graph to show your expenditure. (5 marks)

Question 3

- a) A commodity has a demand elasticity of 0.54. What type of elasticity is it and what does it mean. (3 marks)
- b) What is an indifference curve and name one characteristic particular to its class. (3 marks)
- c) With the help of a well labelled diagram, explain what is meant by inelastic supply

(4 marks)

- d) State whether the statement is True or False
- (i) When Average product is falling, Marginal product is less than average product
 - (ii) A 60% increase in taxes decrease the demand for inferior goods
 - (iii) When demand increases, supply remaining the same, both price and quantity increase.
 - (iv) Marginal revenue and price are the same for a pure competitor
 - (v) Microeconomics focuses on the economy as a whole
 - (vi) We need perfect knowledge of the industry to move from a perfectly competitive market to a purely competitive one
 - (vii) The product is differentiated in oligopolistic competition
 - (viii) Marginal cost is equal to marginal product divided by price
 - (ix) Additional units of the variable input causes a decline in output in Stage II
 - (x) There are no fixed inputs in the long run

(15 marks)

Question 4

Choose the most appropriate answer.

- (a) Economics is best defined as

(3 marks)

- A. How people make money and profits in the market
- B. Making choices from an unlimited supply of goods and services
- C. Making choices with unlimited wants but facing scarcity of resources
- D. Science of choice and how people cope with differences in wants

- (b) Which of the following may be found in oligopoly but not monopolistic competition?

(3 marks)

- A. Advertising
- B. Collusion
- C. Excess capacity
- D. Product differentiation

- (c) Monopolistic competition is best described as a market structure where:

(3 marks)

- A. Firms are price takers
- B. There are barriers to entry and exit
- C. The firms produce differentiated goods
- D. Most of the firms earn supernormal profits in the long run

- (d) What does the existence of scarcity imply?

(3 marks)

- A. All goods are economic goods
- B. Economic agents have to make choices

- C. It is not possible to increase the quantity of resources
 D. Productive potential of resources is decreasing

(e) Which of the following is a capital good (3 marks)

- A. A fishing area
 B. A bank loan to a newly established firm
 C. A photocopying machine in a law firm
 D. A car used to transport staff

(f) In choosing an item to serve as a medium of exchange, which of the following is the most important characteristic. It must be

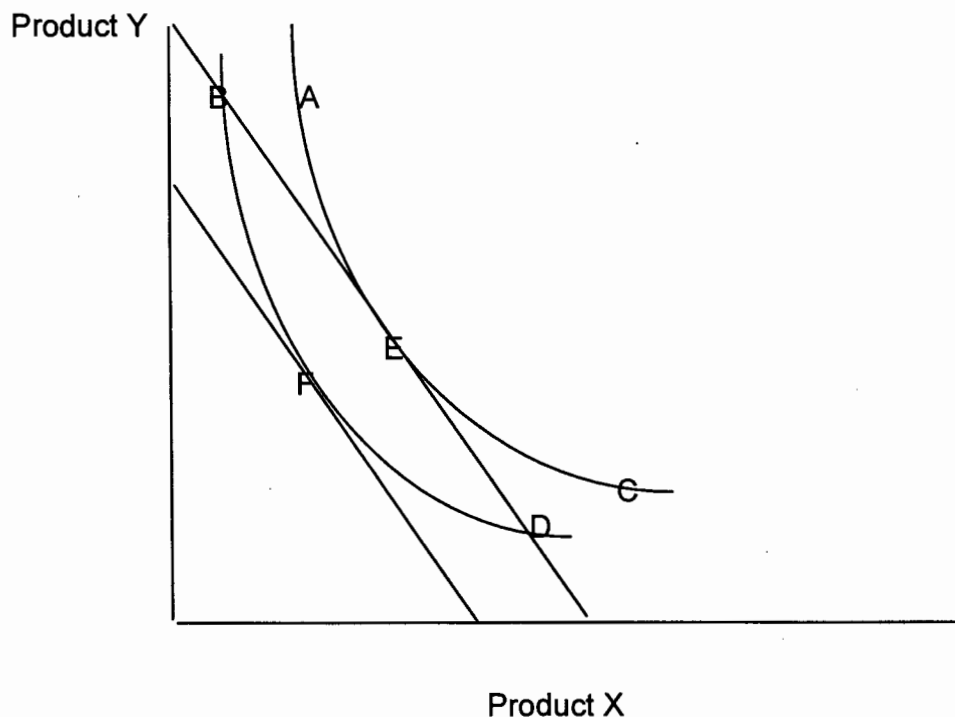
(3 marks)

- A. Divisible
 B. Issued by the state
 C. Easily recognisable
 D. Generally acceptable

(g) The following graph shows two budget lines and two indifference curves.

Where is the highest attainable level of utility?

(4 marks)



- A. A and C
 B. B and A
 C. B and D

D. E

(h) Which worker is employed in a tertiary sector

(3 marks)

- A. A miner
- B. A farmer
- C. An advertiser
- D. A fisher