



2nd SEM. 2011/2012

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

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Question 1

(a) With the help of a well labelled diagram, explain a price ceiling. (10 marks)

(b) Complete the sentences by inserting the most appropriate word/s in the spaces.

- I. _____ studies the characteristics of the entire economy.
- II. Primary production is carried out by _____ industries.
- III. When demand is unresponsive to price changes, its ratio is less than _____.
- IV. Law of supply, _____ is supplied at higher prices.
- V. Management is an example of a _____ input.
- VI. _____ is the additional unit of output gained from using one additional unit of input.
- VII. Stage _____ represents the range over which production must occur.
- VIII. Payroll is an example of a firm's _____ costs.
- IX. _____ is the difference between pure and perfect competition.
- X. Price _____ is the act of selling a product at different prices in different markets.
- XI. _____ means, everything remaining the same.
- XII. A market is in _____ when demand and supply are equal.
- XIII. When marginal product is falling, we are experiencing _____ returns to the variable input and total product is _____ at a _____ rate. (15 marks)

Question 2

Consider the following straight line demand and supply curves.

$Q_d = 200 - 8P$

$Q_s = 8 + 8P$

$Q_d =$ quantity demanded; $P =$ price

$Q_s =$ quantity supplied; $P =$ price (E)

- i) For values of $P = 10, 15$ and 20 , calculate the quantities demanded and supplied at each price level. (6 marks)
- ii) Calculate the equilibrium price and quantity. (4 marks)
- iii) With the help of a well labelled diagram, illustrate the situation in (ii). (5 marks)
- iv) Working from (iii), show what happens to supply when price increases to 16 . (10 marks)

Question 3

a) State whether the statement is True or False

- (i) When Average product is falling, Marginal product is less than average product.
- (ii) Pure monopoly differs from pure competition with respect to costs of production.
- (iii) $Y = X_1, X_2 \dots X_n$, the vertical bars are used to indicate that variables to right are variable.
- (iv) Marginal revenue and price are the same for a pure competitor.
- (v) Fixed costs are zero when output is zero.
- (vi) Products sold by each firm in perfect competition are homogenous.
- (vii) The product is not differentiated in monopolistic competition.
- (viii) A floor price creates excess demand.
- (ix) Additional units of the variable input cause a decline in output in Stage I.
- (x) There are no fixed inputs in the short run
- (xi) Land clearing, drainage, levelling are all examples of capital.
- (xii) A market is a place where buyers and sellers meet.
- (xiii) Quantity demanded is infinity at the ruling price under perfectly inelastic demand.
- (xiv) Opportunity cost is the cost of producing an alternative good.
- (xv) Indifference curves intersect when inferior goods are consumed.

(15 marks)

b) With the help of a diagram, explain the concept of a kinked demand curve.

(7 marks)

c) Prove the following:

Marginal Cost = Price/Marginal product

(3 marks)

Question 4

i) Choose the most appropriate answer.

(a) Which answer least defines Economics? (1.5 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 limited resources
- D. Science of choice and how people cope with differences in wants

(b) Which of the following best defines a firm? (1.5 marks)

- A. A decision making unit of production
- B. A managerial unit of business
- C. A registered company
- D. A production unit

(c) Monopolistic competition is best described as a market structure where: (1.5 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? (1.5 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 not a service? (1.5 marks)

- A. Law
- B. A Loan
- C. Communication
- D. Couriering

(f) In choosing an item to serve as a medium of exchange, which of the following is the most important characteristic. It must be: (1.5 marks)

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

(g) Consumer equilibrium is attained when: (1.5 marks)

- A. The budget line is tangent to the consumer' product axis
- B. The indifference curve is equal to the Y axis
- C. Demand is equal to supply

D. Budget line is tangent to the indifference curve

(i) A price war may be initiated by: (1.5marks)

- A. A monopolist who lowers price
- B. A pure competitor who increases price
- C. An oligopolist who increases price
- D. An oligopolist who lowers price

(j) Pure competition becomes perfect competition when: (1.5 marks)

- A. There is an absence of artificial restraints
- B. Complete knowledge of the economy
- C. Complete knowledge of the industry
- D. There is complete mobility of resources

(l) Profit is maximised (for a pure monopolist) at output levels where: (1.5marks)

- A. Minimum costs are equal to minimum returns
- B. Marginal costs are equal to marginal profits
- C. Marginal revenue is equal to marginal returns
- D. Price is equal to marginal costs

ii) With the help of a well labelled diagram, explain the relationship between marginal cost, average variable cost and total cost (10 marks)