

2nd SEM. 2015/2016



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UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER

PROGRAMME: BSc. in Agricultural Economics and Agribusiness
Management Year II

COURSE CODE: AEM 204

TITLE OF PAPER: INTERMEDIATE MICROECONOMICS

TIME ALLOWED: TWO (2): HOURS

INSTRUCTION: 1. ANSWER ALL FOUR QUESTIONS
2. EACH QUESTIONS CARRIES 25 POINTS

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CHIEF INVIGILATOR

Question 1

- a) What is a rational choice? **6 MARKS**
- b) True or false? Only the wants of a person making a choice are relevant to determine its rationality? **4 MARKS**
- c) What is the production possibilities frontier (PPF), how does it illustrate scarcity and why does the PPF bow outward? **15 MARKS**

Question 2

- a) Assume a market is at equilibrium, *discuss and clearly illustrate* what happens to price, quantity and the equilibrium point when demand decrease. **5 MARKS**
- b) List 6 factors that bring about changes in demand? **6 MARKS**
- c) Which type of goods can be observed assuming the following income elasticities of demand? **6 MARKS**
- i. Good X: + 0.5
 - ii. Good Y: + 2.6
 - iii. Good Z: - 0.4
- d) What is a price ceiling and what are its effects on the market if it is set above and below the equilibrium price? **8 MARKS**

Question 3

- a) Differentiate between marginal cost and marginal benefit, and explain how we measure marginal cost and marginal benefit? **13 MARKS**
- b) Distinguish between comparative advantage and absolute advantage? **12 MARKS**

Question 4

a) Atlantis is a small, isolated island in the South Atlantic. The inhabitants grow potatoes and catch fish. The accompanying table shows the maximum annual output combinations of potatoes and fish that can be produced. Obviously, given their limited resources and available technology, as they use more of their resources for potato production, there are fewer resources available for catching fish.

Possibility	Quantity of potatoes (Units: Pounds)	Quantity of fish (Units: Pounds)
A	1000	0
B	800	300
C	600	500
D	400	600
E	200	650
F	0	675

- i. Draw a production possibility frontier with potatoes on the horizontal axis and fish on the vertical axis illustrating these options, showing points A–F. **3 MARKS**
- ii. Can Atlantis produce 500 pounds of fish and 800 pounds of potatoes? Explain. Where would this point lie relative to the production possibility frontier? **3 MARKS**
- iii. What is the opportunity cost of increasing the annual output of potatoes from 600 to 800 pounds? **3 MARKS**
- iv. What is the opportunity cost of increasing the annual output of potatoes from 200 to 400 pounds? **3 MARKS**
- v. Can you explain why the answers to parts iii. and iv. are not the same? What does this imply about the slope of the production possibility frontier? **3 MARKS**

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- b) You are given market data that says when the price of pizza is E4, the quantity demanded of pizza is 60 slices and the quantity demanded of cheese bread is 100 pieces. When the price of pizza is E2, the quantity demanded of pizza is 80 slices and the quantity demanded of cheese bread is 70 pieces.

Can the price elasticity of demand be calculated for either good? And If so, calculate the price elasticity of demand

10 MARKS