

UNIVERSITY OF SWAZILAND
INSTITUTE OF POST-GRADUATE STUDIES
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION 2017/18

TITLE OF PAPER : MANAGERIAL ECONOMICS
COURSE CODE : ACF 606
TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

1. QUESTION ONE (1) IN SECTION A IS COMPULSORY AND IT CARRIES 40 MARKS
2. ANSWER ANY OTHER TWO (2) QUESTIONS IN SECTION B. ALL QUESTIONS IN SECTION B CARRY 30 MARKS EACH.
3. ONLY SCIENTIFIC NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.
4. ROUND UP YOUR FINAL ANSWERS TO TWO (2) DECIMAL PLACES.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

SECTION A

QUESTION 1 (COMPULSORY)

[40 Marks]

- a) In a market economy, wealth is created when assets are moved from a lower value to higher value use. In less than a paragraph, state how the organisation you work for achieves the transference of lower value assets to higher value assets. [5 Marks]
- b) Suppose that the government of Swaziland caps the price of bread at £10 per loaf. Prior to the price cap, assume that the price of bread was £12 per loaf. Using Supply and Demand analysis, how will this affect the consumer and the producer? [7 Marks]
- c) Differentiate between economic profits and accounting profits. [5 Marks]
- d) Suppose a family utilises 1,000 Litres of fuel per annum when the price is £12.00 per Litre.
- i. If the family's price elasticity of demand for fuel is -0.1, what will be the consumption, and cost if the price of fuel decreases to £10.50 per litre? [7 Marks]
 - ii. If the family's income elasticity of demand is 0.5, and their income is £100,000 per annum. What would be their consumption of fuel if income increased to £110,000 per annum. Is type of good is fuel to this family? [7 Marks]
- e) Distinguish between the concepts of “**Diminishing Marginal Returns**” and “**Diminishing Returns**” of a factor input in the production process. [4 Marks]
- f) Briefly differentiate between Economies of Scope and Economies of Scale. [5 Marks]

SECTION B

Answer any Two (2) Questions from this Section

QUESTION 2

[30 Marks]

- a) If an organisation is operating under a perfectly competitive product market structure, graphically illustrate and explain the decision to shut down operations in the short-run. [6 Marks]
- b) Suppose that a representative competitive firm has the following cost structure:
 $C(q) = 100 + q^2 + q$, where q is the quantity of output produced by the firm. If you further know that the market demand for the product is $P = 1000 - 2Q$, and the supply is $P = 100 + Q$, where Q is the total market output.
- i) Find the equilibrium market price and quantity. [4 Marks]
- ii) What is the firm's profit maximising level of output, total revenue, total cost, and profit? [8 Marks]
- iii) Based on your result in (b (ii)) above, what do you anticipate will happen in this industry in the long-run? [4 Marks]
- iv) What is the long-run equilibrium price, and what is the long-run equilibrium quantity of a representative firm? [8 Marks]

QUESTION 3

[30 Marks]

- a) Briefly articulate some benefits of a monopoly industry. [6 Marks]
- b) "A monopolistic firm can continue to make positive economics profits even in the long run". Graphically show and explain this statement. [10 Marks]
- c) Suppose that your organisation has the following production function for the product that it produces: $Q = 5K^{0.8}L^{0.1}$, where Q is output, K is amount of capital, and L is the amount of labour.
- i) Find the marginal products of labour and capital, and interpret what they mean. [7 Marks]
- ii) What kind of returns to scale does the production function exhibit? [7 Marks]

QUESTION 4

[30 Marks]

- a) What are the conditions that should exist for a monopoly firm to practice price discrimination? [5 Marks]
- b) Differentiate first degree and third degree price discrimination [5 Marks]
- c) If a discriminating monopoly firm has a constant marginal cost of £10 for a certain product, and the respective demand functions for its two markets are :

$$q_1 = 500 - 10P_1, \text{ and } q_2 = 500 - 20P_2$$

Is it profitable for the monopoly firm to price discriminate or to combine the market and charge a single price? [20 Marks]