UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, NOVEMBER 2019

INSTITUTE OF POST-GRADUATE STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

COURSE CODE: ACF 607

TITLE OF PAPER: MANAGERIAL ECONOMICS

TIME ALLOWED: 3 HOURS

Instructions
1. This paper consists of Section (A) and (B).
2. Section A is compulsory.
3. Answer any two (2) questions from Section B.

Special Requirements
   Scientific calculator

Additional Material (s)
1. None

Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must NOT write anything else until the start of the examination period is announced.

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so.

SECTION A

QUESTION 1 (COMPULSORY)   **[Total Marks = 40]**

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.   (Cannot exceed 1 paragraph or quarter page)   **[6 Marks]**

b) Distinguish between Income Elasticity of demand and Cross-price Elasticity of demand (make sure you provide the computational formulae and the types of goods as depicted by the different elasticities).   **[7 Marks]**

c) Suppose that the government of Eswatini imposes a cap on the price that fuel retailers can charge per litre of fuel. Using Supply and Demand analysis, how might such a policy affect the equilibrium position?   **[7 Marks]**

d) Graphically illustrate and explain the principle of returns to scale.   **[8 Marks]**

e) Given a production function of the following form $Q = 4K^{1.5}L^{0.5}$

    i.   Find the marginal product of capital and marginal product of labour when the utilisation of capital is 4 units and that of capital is 4 units.   **[7 Marks]**

    ii.   What kind of returns to scale does the production function exhibit? Justify your answer.   **[5 Marks]**

SECTION B

Answer any Two (2) Questions from this Section

QUESTION 2   **[Total Marks = 30]**

a) "A firm in a competitive market structure can continue to operate in the short run even if it is making a loss." Graphically illustrate and explain when this statement is true.

[10 Marks]

b) Suppose that a representative competitive firm has the following cost structure:

$C(q) = 100 + q^2 + 2q$, 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.   [3 Marks]

ii)   What is the firm's profit maximising level of output, total revenue, total cost, and profit in the short run?   [7 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?   [6 Marks]

QUESTION 3   [Total Marks = 30]

a) Choose one parastatal in Eswatini that operates as a monopoly, explain and give examples of three (3) **structural barriers** that may hinder new entrants into the industry. [8 Marks]

b) "A monopoly firm can operate at a loss, it is not always given that they make profits, even in the long run". Graphically show and explain the instance or conditions when this statement is true.   [9 Marks]

c) Differentiate between first degree and third degree price discrimination.   [5 Marks]

d) What conditions should exist for a monopoly firm to be able to practice third degree price discrimination.   [4 Marks]

e) State two (2) reasons why governments often find it difficult to regulate monopolies.

                                                                                [4 Marks]

QUESTION 4   [Total Marks = 30]

a) Graphically illustrate and explain how a government can optimally regulate a monopoly firm.

                                                                                [10 Marks]

b) If a discriminating monopoly firm has the following Total Cost function for a certain product ($TC = 10 + 4Q$), and the respective demand functions for its two markets are :

$q_1 = 9 - 0.25P_1$, and $q_2 = 7 - 0.25P_2$, where $Q = q_1 + q_2$

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