UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, APRIL 2021

INSTITUTE OF POST-GRADUATE STUDIES

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.
4. Be as brief as you possibly can in answering the questions. For me **quality** is better than **quantity**.

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. Briefly state how the organisation you work for or your business achieves the transference of lower value assets to higher value assets. (Your response should not exceed a quarter of a page)   [6 Marks]

b) Distinguish between Price Elasticity of demand and Cross-price Elasticity of demand

[6 Marks]

c) The sales team of a certain company is proposing a strategy to increase revenue through sales. As an experiment, the team lowered the price from $E20$ per unit to $E15$ per unit and saw sales increase from 10,000 units to 13,000 units. Based on your knowledge of price elasticity of demand, advise the sales team on an appropriate pricing strategy.

[7 Marks]

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

   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 1 unit.   [6 Marks]

   ii. Do you think the marginal product of labour would be the same if the firm was utilizing 5 units of labour and 1 unit of capital? Justify your answer.   [4 Marks]

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

e) The Marginal Rate of Technical Substitution (MRTS) is different along an isoquant curve. Demonstrate and explain why this is the case for production.   [6 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 fully when this statement is true.

[15 Marks]

b) Suppose that some firms were making a loss in the short run in a competitive market structure, graphically illustrate and explain the equilibrium of this market in the long run.

[15 Marks]

QUESTION 3   [Total Marks = 30]

a) *"A monopoly firm can operate at a loss, it is not always a given that they make profits, even in the long run"*. Graphically show and explain the instance or conditions when this statement is true.   (clearly label graphs)   [10 Marks]

b) If a discriminating monopoly firm has the following Total Cost function for a certain product $TC = 50 + 10Q$, and the respective demand functions for its two markets are:

Market 1: $q_1 = 50 - 2P_1$ and Market 2: $q_2 = 100 - P_2$

where $Q = q_1 + q_2$

Which is more profitable for the monopoly firm between price discriminating the market and charge different prices, or combining the market and charging a single price? (Show all workings that inform your recommendation)   [20 Marks]

QUESTION 4   [Total Marks = 30]

a) Briefly explain the following concepts as used in information Economics:

     i.   Adverse Selection   [3 Marks]

     ii.   Moral Hazard   [3 Marks]

     iii.   Signaling   [4 Marks]

b) The *Prisoner's dilemma* game shows that rational individuals might not choose to cooperate even if it might seem that it is in their best interest to do so. Analyse this statement with an example of your choice (normal form) of a Prisoner's dilemma game.   [13 Marks]

c) Represent your **Prisoner's dilemma** game in (b) above as an extensive form.   [7 Marks]

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