

UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER 2005

TITLE OF PAPER : INTRODUCTION TO ECONOMICS

COURSE CODE : ECON 101/IDE-ECON 101-1-2

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS : 1. ANSWER FOUR QUESTIONS:

TWO QUESTIONS FROM SECTION A AND TWO QUESTIONS FROM SECTION B.

2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 (TWENTY FIVE) EACH.

DO NOT OPEN THIS PAPER UNTIL THE INVILATOR HAS GRANTED PERMISSION.

SECTION A

Question 1

a) Discuss the meaning and significance of the following terms:

- i) Basic economic theory
- ii) Efficiency vs. equity (5 Marks each)

b) Indicate exactly how each of the following is or is not an economic problem.

- i) Hostel accommodation in Kwaluseni campus
- ii) Rural grazing
- iii) Sunshine (5 Marks each)

Question 2

a) Using an appropriate diagram, discuss the meaning of an indifference curve.

(5 Marks)

b) Necessities are exempt from sales taxation, but luxuries are not exempt. Suppose the sales tax rate is increased. Using an appropriate diagram, isolate the income and substitution effects to indicate direction whether or not the consumption of each good X (a luxury good) or good Y (a necessity good) would change. If so, indicate the direction of change. Be sure to spell out all the assumptions used. (18 Marks)

Question 3

a) Discuss the five (5) characteristics of indifference curves. (15 Marks)

b) Suppose an individual spends all his monthly income on two goods, X and Y. Draw his budget line if his income is E100 per month, the price of X is E5 per unit and the price of Y is E2 per unit. On the same graph above, draw the budget line if the price of Y doubles. (10 Marks)

Question 4

a) "Monopolistic competition is the same as Perfect Competition". Discuss (10 Marks)

b) "A monopolist maybe able to maintain above normal profits in the long-run period" Discuss (15 Marks)

SECTION B

Question 5

- a) Explain how government spending is financed. (7 Marks)
- b) What principles should govern the design of an efficient and equitable tax system? (9 Marks)
- c) Critically discuss the demerits of applying user charges in the fields of education and health. (9 Marks)

Question 6

- a) Outline Say's law. (18 Marks)
- b) Outline Keynes' criticism of the classical theory of full-employment. (7 Marks)

Question 7

- a) "No banking or financial systems can operate effectively without the Central Bank". Discuss (15 Marks)
- b) Explain the nature of fiscal policy and monetary policy. (10 Marks)

Question 8

- a) Outline the historical origins of the structural characteristics of the Swaziland economy. (10 Marks)
- b) Outline the nature of the structural characteristics of the Swaziland economy within a dualistic framework. (15 Marks)