

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION 2005

TITLE OF PAPER: INTRODUCTION TO MICROECONOMICS -1 (IDE)

COURSE CODE: ECON 201 - 1

- INSTRUCTIONS:
1. ANSWER ANY THREE QUESTIONS
 2. ALL QUESTIONS CARRY 25 MARKS EACH

TIME ALLOWED: 2 HOURS

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

Question 1

Let the demand function for apples be given by:

$$Q = 250Y^{1.3} P^{-1.6} R^{0.7}$$

Whereby:

Q = quantity of apples demanded.

P = the mean retail price of the apples.

R = the mean retail price of all other commodities.

Calculate:

- i. The price elasticity of demand (6 marks)
- ii. The income elasticity of demand (6marks)
- iii. The cross price elasticity of demand and determine whether the goods in question have either a substitute or a complementary relationship. (7 marks)
- iv. Explain the usefulness of the elasticity concept. (6 marks)

Question 2

Discuss the following:

- a) Why short-run average cost curves are "U "shaped. (6 marks)
- b) Why long-run average cost curves are "U "shaped. (6 marks)
- c) If the average total cost is rising, what can we say about marginal cost? And why? (4 marks)
- d) Give mathematical verification for your answer in (c) above. (9 marks)

Question 3

Write short notes on each of the following:

- (i) Marshallian demand vs. Compensated demand. (7 marks)
- (ii) Microeconomics vs. Macroeconomics. (5 marks)
- (iii) Induction vs. Deductive Reasoning (6 marks)
- (iv) Factors affecting Demand for a product. (7 marks)

Question 4

a) With the aid of diagrams, explain the similarities between consumer and producer theories.

[15 marks]

b) Distinguish between a Price Consumption curve and an Engel curve. Explain the importance of each concept.

[10 marks]C

Question 5

A) Outline the 'economic problem'. Explain the differences in resource allocation between Capitalist and Socialist economic systems. [17]

B) What are the disadvantages of each system in (A) above? [8]

Question 6

Explain and illustrate graphically, how income and substitution effects of a price change help distinguish between:

- i) A normal and an inferior good [12 marks]
- ii) An inferior and a giffen good [13 marks]