UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION 2005

TITLE OF PAPER: INTRODUCTION TO MICROECONOMICS-2 IDE

COURSE CODE: ECON 201-2

INSTRUCTIONS: 1.   ANSWER ANY THREE QUESTIONS.

2.   ALL QUESTION CARRY 25 MARKS EACH.

TIME ALLOWED :   TWO (2)HOURS

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

Question 1

a) Explain the process by which supernormal profits are eliminated in the long run in a Perfectly Competitive industry.   [10 marks]

b) With the aid of diagrams, distinguish between Third Degree Price Discrimination and Second Degree Price Discrimination.   [15 marks]

Question 2

a)   Discuss the conditions necessary for the existence of Perfect Competition. [12 marks]

 Given the following information on revenue and costs for a perfectly competitive firm:

$$P = MR = E\ 100$$

$$AC = 204 - 3Q + 0.02Q^2$$

Where P = Product Price
MR = Marginal Revenue
AC = Average Cost
Q = Units of output produced per month

Find the profit maximizing level of output and calculate the level of profit.   [13 Marks]

Question 3

a)   Compare and contrast the welfare effects of a non discriminating monopolist and a second degree price discriminator.   [13 marks]

b) A Monopoly Firm's demand function is given by:

$$Q = 330 - 60\ P$$

Given a constant marginal cost MC = 0.5

(i) Calculate Equilibrium price and quantity. [8 marks]

(ii) Calculate the level of profit [4 marks]

Question 4

Write short notes on each of the following:

(i)   Distinguish between Monopolistic Competition and Pure Monopoly. (8 Marks)
(ii)   What is the difference between value of marginal product (VMP) and marginal revenue product (MRP) (7 marks)
(iii) Distinguish between monopolistic exploitation and monopsonistic exploitation. (10 Marks)

Question 5

a) Distinguish between profit maximization under conditions of monopolistic Competition and Oligopoly   [15 marks]

The demand function of a profit maximizing monopolist is

$Q + 2P = 40$

And his average cost function is

$AC = 20 Q^{-1} + 4$

At what output will the monopolist maximise profits?   [10 marks]

Question 6

Baphumelelanjalo Hardware is a perfectly competitive firm whose total cost function is:

$$C = 200 + 4Q + 2Q^2$$

Calculate the optimum rates of output and profits earned at each of the following price levels:

        (i)   E24
        (ii)   E44
        (iii)   E52

[18 marks]

b)   Comment on the levels of profits earned at the different output levels. In the case where the firm is operating at a loss, would you advise the firm to continue to produce? Explain and show your calculations clearly.

[7 marks]