

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION 2006

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: TWO (2) HOURS

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

QUESTION 1

- (a) Discuss the determinants of price elasticity of demand [10 marks]
- (b) Given the following consumer constrained maximization problem:

$$\begin{array}{ll} \text{Maximize} & U = X^{1/4} Y^{1/4} \\ \text{s.t.} & 4X + 5Y = 40 \end{array}$$

Use the lagrangian method to:

- (i) Find the utility maximizing levels of X and Y [12 marks]
- (ii) Determine the maximum level of utility [3 marks]

QUESTION 2

- (a) When average total cost is rising so is marginal cost, mathematically verify this statement. [8 marks]
- (b) Using the concept of economies and diseconomies of scale, explain the shape of the long-run average cost curve and the relationship between short-run and long-run cost curves. [10 marks]
- (c) Discuss the characteristics of isoquants. [7 marks]

QUESTION 3 -

- (a) Discuss the criticisms that have been leveled against both the deductive and inductive reasoning models [7 marks]
- (b) Compare and contrast the market economy and Socialist systems. [10 marks]
- (c) Briefly discuss in the context of Swaziland the 'economic problem' [8 marks]

QUESTION 4

Write short notes on each of the following:

- (a) Engel curves [6 marks]
- (b) Determinants of demand for a product [8 marks]
- (c) Concept of cross price elasticity of demand [5 marks]
- (d) Microeconomics vs. Macroeconomics [6 marks]

QUESTION 5

With an aid of diagrams and relevant economic terms, explain the three stages of production experienced in the short run, and explain why the producer would like to produce in stage and not in stages one and two.

[25 marks]