

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION 2006

TITLE OF PAPER: INTRODUCTION TO MICROECONOMICS (2) – IDE

COURSE CODE: ECON 201 – 2

INSTRUCTIONS:

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

TIME ALLOWED: TWO (2) HOURS

QUESTION 1

- (a) Explain the determinants of market structures [7 marks]
- (b) Explain how cartels may change the functioning of an oligopolistic market? [5 marks]
- (c) Discuss the kinked demand analysis in oligopoly [13 marks]

QUESTION 2

Utilizing diagrams, illustrate the concept of

- (a) Monopolistic exploitation of a resource [9 marks]
- (b) Monopsonistic exploitation of a resource [9 marks]
- (c) How can a minimum wage reduce the exploitative capacity of a monopsonist. In your discussion, reveal the welfare effects [7 marks]

QUESTION 3

The market demand function of a profit maximizing firm is given by;

$$4P + Q = 16$$

And the average cost (AC) function is given by:

$$AC = \frac{4}{Q} + 2 - 0.3Q + 0.05Q^2$$

Where: P = product price
Q = units of output produced per month

Determine the level of output, Q, which

- (a) Maximizes the firm's total revenue [7 marks]
- (b) Minimizes the firm's marginal cost [7 marks]
- (c) Maximizes the profits of the firm [11 marks]

QUESTION 4

Write explanatory notes on each of the following:-

- (a) Rationale for regulation of monopoly firms [5 marks]
- (b) First degree price discrimination [5 marks]

- (c) Cartel and gentlemen's agreements as applied to oligopoly [5 marks]
- (d) Monopoly vs oligopoly [5 marks]
- (e) Third degree price discrimination. [5 marks]

QUESTION 5

- (a) Assume that Swaziland Electricity Board (SEB) was operating as a perfect competitive company and the government decides to make it a monopoly. Discuss with an aid of a diagram the effects of the monopolization of SEB by the state. [12 marks]
- (b) With an aid of a diagram, clearly show and discuss when should a firm shut down under perfect competition [13 marks]