UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION 2007

TITLE OF PAPER: PRINCIPLES OF ECONOMICS

COURSE CODE: ECON 101

INSTRUCTIONS:

1. ANSWER TWO QUESTIONS IN SECTION A AND TWO QUESTIONS IN SECTION B, MAKING A TOTAL OF FOUR QUESTIONS

2. ALL QUESTIONS CARRY 25 MARKS EACH.

TIME ALLOWED : THREE (3) HOURS

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

SECTION A

Question 1

a) What is an Isoquant? [4 marks]

b) Draw and explain an isoquant map of a good where:

i. Capital and Labour have been used in fixed proportions [7marks]

ii. Capital and Labour are perfect substitutes. [7 marks]]

iii. There is diminishing Marginal Rate of Technical Substitution. [7 marks]

Question 2

a) Describe the properties of indifference curves in consumer analysis. [10 marks]

b) Suppose an individual spends all her monthly income on two goods X and Y:

Draw his budget line if his income is E300 per month, the price of X is E30 per unit and the price of Y is E20 per unit. [6 marks]

c) On the same graph I b) above, draw a new budget constraint depicting the effect of an increase in the price of X to E60. Explain the impact of this change on the feasible region for the consumer. Is the consumer worse off or better off? [5 marks]

d) Distinguish between an Income Consumption Curve (ICC) and a Price Consumption Curve (PCC) [4 marks}

Question 3

a) Using suitable diagrams, compare and contrast short run profit maximization by a Pure Monopolist and a Perfectly Competitive firm. [18 marks]

b) Explain the factors that cause a monopolist to be undesirable in society. [7 marks]

Question 4

a) Elasticity is said to be a unit free measure. Explain [5marks]

b) Consider the following data for commodity X:

Price (E):	2	4	6	8	10	12
Quantity Demanded	100	80	60	40	20	0

i. Calculate the price elasticity of demand when the price is E6 and when the price is E10. [6marks]

ii. Calculate the price elasticity of demand in the following ranges:
   I. E4 – E8 [4marks]
   II. E8 – E10 [4marks]

iii. Suppose now that a rise in real income causes quantity demanded to increase by 50 units per month at every price level. Calculate the price elasticity of demand when the price is E4 and when the price is E10. [6marks]

SECTION B

Question 5

a) Using a suitable diagram explain the circular flow of income. [10 marks]

b) Discuss the three major approaches to measuring national income [15 marks]

Question 6

Using Keynesian Economics, critically evaluate the following statement ***"Supply creates its own Demand"***
[25 marks]

Question 7

a) Describe the rationale for the public sector [12 marks]
b) Describe the nature of public goods. [8 marks]

c) Using suitable examples distinguish between a private good and an externality. [7 marks]

Question 8

Consider the following data for a closed economy with a fixed price level:

$$C = 22 + 0.6\,Y_d$$
$$I = 10$$
$$G = 20$$
$$T = 20$$

a) Calculate equilibrium income [9 marks]

b) Determine the formula for the government expenditure multiplier

[6 marks]

c) Calculate the net effect on national income of an increase in G of 12 and a simultaneous increase in T of 20. Briefly explain the result.

[10 marks]