

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS**

MAIN EXAMINATION PAPER: MAY 2009

**TITLE OF PAPER : INTRODUCTION TO ECONOMICS
COURSE CODE : ECON 101/ECON 101-1&2
TIME ALLOWED : THREE (3) HOURS**

INSTRUCTIONS:

- 1. ANSWER FOUR (4) QUESTIONS: TWO FROM SECTION A AND TWO FROM SECTION B.**
- 2. ALL QUESTIONS CARRY EQUAL MARKS OF TWENTY FIVE (25) EACH.**

DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

SECTION A

Question 1

Write short explanatory notes on the following:

- a) Economic Problem
- b) Efficiency vs. Equity
- c) Increasing Opportunity Cost
- d) Microeconomics vs. Macroeconomics
- e) Positive vs. Normative Economics

[5 marks each]

Question 2

- a) Discuss the determinants of Price Elasticity of Demand. [15 marks]

- b) Discuss whether or not the elasticity of salt exceeds unity with respect to its own price, prices of related products, and consumer income. [10 marks]

Question 3

- a) Describe two (2) properties of indifference curves. [7 marks]

- b) Necessities are exempt from sales taxation, but luxuries are not exempt. Suppose the sales tax is increased. Using an appropriate diagram, isolate the income and substitution effects to indicate the direction whether or not the consumption of each good X (a luxury) and Y (a necessity) would change. If so, indicate direction of change. Be sure to spell out all the assumptions used. [18 marks]

Question 4

- a) Suppose an individual spends all his monthly income on two goods, X and Y. Draw his budget line if his income is E300 per month, the price of X is E20 per unit and the price of Y is E30 per unit. [8 marks]

- b) Draw a new budget line if the price of Y doubles. [6 marks]

- c) Select any point of equilibrium on the old budget line i.e. budget line in (a). Do you expect the point of equilibrium on the new budget line i.e. budget line in (b) to be such that there is less of Y bought? Why or why not? [11 marks]

SECTION B

Question 5

- a) Using suitable examples differentiate between the 'Public Sector' and the 'Private Sector'. [7 marks]
- b) Discuss the factors justifying the existence of the public sector in Swaziland. [18 marks]

Question 6

- a) Discuss two uses of national output figures. [7 marks]
- b) Discuss four problems encountered in the measurement of national output. [18 marks]

Question 7

- a) Explain and illustrate consumption behaviour as predicted by J.M. Keynes (Absolute Income Hypothesis) and J.S. Duesenberry (Relative Income Hypothesis). [10 marks]
- b) Describe three major determinants of investment in Swaziland. [15 marks]

Question 8

Outline the main structural characteristics of the Swaziland economy and indicate their historical origins. [25 marks]