UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION 2009

TITLE OF PAPER: INTRODUCTION TO MICROECONOMICS

COURSE CODE: ECON 201

INSTRUCTIONS: ANSWER QUESTION <u>ONE</u> IN SECTION A
AND <u>THREE</u> QUESTIONS IN SECTION B

TIME ALLOWED: THREE(3) HOURS

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

SECTION A

Question 1 (Compulsory)

(a)   Graphically, decompose the impact of a price fall into a substitution and an income effect for an inferior good whose income effect outweighs the substitution effect. Comment on the shapes of the resultant compensated and ordinary demand curves.

[8 marks]

(b)   Given a competitive market where the demand function is expressed by

$Q_d = 52 - 2P$ and the supply function is expressed by

$5P - Q_s = 25$

Determine the equilibrium price and quantity levels for the market   [6 marks]

(c)   If the government now imposes a tax of E2 per unit sold, what will be the post-tax equilibrium price and quantity?   [6marks]

(c) How will the producer's revenue be affected by the tax? [6 marks]

(d)   Who bears the tax burden?   [4 marks]

Question 2

a) Discuss the conditions necessary for the existence of perfect competition   [10 marks]

(b) The following revenue and cost information is for perfectly competitive firm:

$$P = MR = E\ 100$$

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

Where P = Prduct 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.
[10 marks]

Question 3

a)   Compare and contrast the welfare effects of a non discriminating monopolist and a second degree price discriminator.   [10 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 { 7 marks]
(ii)   Calculate the level of profit [3marks]

Question 4

Distinguish between the following:

(i)   Marshallian demand and Compensated demand. [6marks]

(ii)   Value of marginal product (VMP) and Marginal Revenue Product
(MRP)   [7 marks]

(iii) Explain the difference between monopolistic exploitation and
monopsonistic exploitation. [7 marks]

Question 5

a) Explain the rationale behind the kinked demand curve used to
describe oligopoly.   [11 marks]

b)   Explain why the marginal revenue curve is discontinuous at the
kink.   [9 marks]

Question 6

Compare pricing under perfect competition and pure monopoly markets
in terms of:
  (i)   Price and Output levels   [7 marks]
  (ii)   Efficiency   [7 marks]
  (iii)   Society Welfare.   [6 marks]

Question 7

        List ten commodities that are likely to be in a consumption bundle
of a Swazi teenager. Indicate whether you would expect her demand for
the commodities to be relatively elastic or inelastic? What about the
income elasticity of demand? Are there pairs of commodities with strong
price elasticities of demand? Are they substitutes or complements?
                                              [20 marks]