

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

MAIN EXAMINATION PAPER: MAY 2009

**TITLE OF PAPER : INTERMEDIATE ECONOMICS THEORY
COURSE CODE : ECON 301
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.**

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SECTION A

Question 1

- a) Describe a rational consumer. [7 marks]
- b) Briefly describe the constraints under which consumers are assumed to operate. [8 marks]
- b) Using a suitable example, explain the law of diminishing marginal rate of Substitution. [10 marks]

Question 2

- a) Write short notes on the Roy's Theorem and the Hotelling's Theorem. [10 marks]
- b) Given the following utility function:

$$U(X_1, X_2) = X_1^2 X_2$$

Derive the ordinary (Marshallian) demand functions for X_1 and X_2 . [15 marks]

Question 3

- a) What do you understand by the production theory concept 'Returns to Scale'? [5 marks]
- b) Discuss the type of relationship that exists between total cost, marginal cost and average cost curves of a firm that is experiencing both increasing and decreasing returns to scale (i.e. cubic shaped total cost curve). [20 marks]

Question 4

- a) Describe the characteristics of a monopolist. [7 marks]
- b) A monopolist is selling in two markets. The inverse demand curve in market 1 is $P = 100 - q_1$. The inverse demand curve in market 2 is $P = 200 - q_2$. The firm's total cost function is $C(q_1 + q_2) = (q_1 + q_2)^2$. The firm is able to discriminate between two markets. Find the prices and quantities that he will charge in each market. [18 marks]

SECTION B

Question 5

Outline the historical development of Macroeconomic Theories.

[25 marks]

Question 6

a) Using a suitable diagram, write short notes on the IS curve.

[10 marks]

b) Given that:

$$C = 40 + 0.8Y \text{ and } I = 70 - 200i,$$

Find

a) The IS equation.

[8 marks]

b) The equilibrium levels of income when interest rate is 0.10 and 0.05.

[7 marks]

Question 7

a) Explain and graphically show how expansionary fiscal policy works with capital mobility under a fixed exchange rate regime.

[12.5marks]

b) Explain and graphically show how expansionary fiscal policy works with capital mobility under a flexible/floating exchange rate regime.

[12.5 marks]

Question 8

Discuss fully how the wage setting in the labor market interacts with the price setting in the product market.

[25 marks]