

UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION
DECEMBER 2012

COURSE CODE: ECON 102/ IDE-ECON 102

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1) ANSWER QUESTION 1 (COMPULSORY).**
- 2) ANSWER ANY TWO QUESTIONS FROM THE REMAINING QUESTIONS**

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Question 1 (Compulsory 40 marks)

- a) List the problems associated with the planned economic system. (5 marks)
- b) Outline four reasons for having the state play a role in a country's economic system. (5 marks)
- c) Explain and sketch a PPF for an economy where the resources are not perfectly flexible between alternative uses. (5 marks)
- d) List the main differences between perfect competition and monopolistic competition. (5 marks)
- e) List the main features of an oligopolistic market. (5 marks)
- f) State the formula for price elasticity of demand, income elasticity of demand and cross price elasticity of demand. (5 marks)
- g) Using your own goods as examples, sketch indifference curves for perfect substitutes and perfect complements. Explain the shapes of these curves. (10 marks)

Question 2

- a) Using equations only (no graphs), explain the equilibrium position of the producer who minimizes costs subject to a resource constraint. (10 marks)
- b) Using a graph, make clear the relationship between total physical product, average product and marginal product. (10 marks)
- c) Suppose you are given the information in the table below. Copy the table and fill in the columns for marginal cost and total variable cost. (10 marks)

| Labour | Output (tones) | Total cost (E) | Total variable cost | Marginal cost |
|--------|----------------|----------------|---------------------|---------------|
| 0 | 0 | 250 | | |
| 1 | 4 | 500 | | |
| 2 | 10 | 750 | | |
| 3 | 13 | 1000 | | |
| 4 | 15 | 1250 | | |
| 5 | 16 | 1500 | | |

Note: Total fixed costs equal 250.

Question 3

- a) A decrease in a consumer's income from E2000 to E1000 per month, all else held constant, results in quantity to decrease from 500 to 300 units per month. Calculate the income elasticity of demand and classify the good and elasticity. (5 marks)
- b) The price of good A falls by 15% and the demand for good B increases by 20% per month. Calculate the cross-price elasticity of demand. State the nature of the goods and the nature of the elasticity. (5 marks)
- c) Sketch a perfectly elastic demand curve and an perfectly inelastic demand curve. (5 marks)
- d) Explain how monopoly behavior decreases consumer surplus. (5 marks)
- e) Show and explain the kinked demand curve for an oligopolistic firm. (10 marks)

Question 4

- a) On the same diagram show a stable and an unstable equilibrium, using demand and supply. Explain why one is stable and the other unstable. (5 marks)
- b) Disequilibrium can persist in a market due to lagged responses on the demand and supply side. Explain. (5 marks)
- c) The effective incidence of a tax depends on the elasticities of supply and demand. Using a graph, explain this statement. (10 marks)
- d) Using a graph, explain the long run equilibrium for a firm operating under perfect competition. (10 marks)