

UNIVERSITY OF SWAZILAND  
FACULTY OF SOCIAL SCIENCE  
DEPARTMENT OF ECONOMICS  
MAIN EXAMINATION  
NOVEMBER 2013

COURSE CODE: ECON 102/ IDE-ECON 102

COURSE TITLE: PRINCIPLES OF MICROECONOMICS

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 (Total 40 Marks)

- Describe **four** strengths and **one** main drawback of the capitalist economic system. (5 marks)
- Define a PPF and sketch one that shows constant opportunity cost. Explain your graph. (5 marks)
- You are given that a consumer's income increase from E1000 to R2000 per month, all else held constant, and this causes the consumer's quantity demanded to rise from 400 to 600 units per month. Calculate the income elasticity of demand for the consumer. Indicate if it is elastic or inelastic. (5 marks)
- The price of good A increases from E10 to E15, ceteris paribus, and the demand for good B falls from 10 to 6 units. Calculate the cross-price elasticity of demand. Interpret the elasticity and indicate the nature of the goods and the nature of the elasticity. (10 marks)
- Time is the most important determinant of the price elasticity of supply. Use an example to explain this. (5 marks)
- Define marginal utility and the law of diminishing marginal utility. (5 marks)
- Differentiate between consumer surplus and producer surplus. Use diagrams. (5 marks)

### Question 2

- Use a graph to explain why indifference curves cannot intersect. (5 marks)
- Outline the assumptions underlying indifference curve analysis. (5 marks)
- Define a price consumption curve and an Engel curve. (6 marks)
- The table below shows utility gained by Phinda when consuming pizza (p) and Nandos (n). Complete this table: (14 marks).

Qp	TUp	MUp	Qn	TUn	MUn
0	0		0		-
1	8		1		20
2	14		2		16
3	18		3		12
4	20		4		8
5	20		5		4
6	18		6		-2

**Note:** MU is marginal utility, Q is output and TU is total utility.

### Question 3

- a) Using graphs, explain the concept of increasing and decreasing returns to scale. (5 marks)
- b) Without using a graph, explain the income and substitution effects of a decrease in the price of an inferior good and a Giffen good. How will the two effects differ if the good is a normal good? Explain. (10 marks)
- c) From the table below, calculate the marginal cost figures using the formula. Show working clearly and be sure to state the formula. (10 marks).

Labour	Output	Total costs	Marginal cost
0	0	250	
1	4	500	
2	10	750	
3	13	1000	
4	15	1250	
5	16	1500	

### Question 4

- a) Sketch a monopolist's demand curve, average revenue (AR) curve and the marginal revenue (MR) curve. Explain the relationship between AR curve and the demand curve as well as why the MR curve lies below the demand curve. (10 marks)
- b) Use a graph to show and explain the equilibrium position of a profit maximizing monopolist who earns above normal profit. (10 marks)
- c) Outline **four** barriers that may prevent the emergence of competitive firms in an industry resulting in creation of monopolies. (5 marks)
- d) Under perfect competition consumer welfare is maximized, yet under monopoly it is not. Explain why this is the case. (5 marks)