

University of Swaziland

Faculty of Social Science

Department of Economics

Final Examination Paper, December 2015

Title of paper : Principles of Microeconomics

Course Code : ECO 101/ IDE ECON 102

Time allowed : Two (2) hours

Instructions : Answer question one and any other two questions.

Question one has twenty (20) multiple choice questions

Do not open this paper until the invigilator has granted permission.

Question 1

- 1. Which of the following is consistent with the law of demand?**
 - (a) an increase in the price of a CD increases the quantity of CDs demanded.
 - (b) a decrease in the price of a gallon of milk decreases the quantity of milk demanded.
 - (c) a decrease in the price of juice does not change the quantity of juice demanded.
 - (d) an increase in the price of a soda decreases the quantity of soda demanded.

- 2. The demand for a good decreases when the price of a substitute ____ and also decreases when the price of a complement _____.**
 - (a) falls; falls
 - (b) rises; rises
 - (c) falls; rises
 - (d) rises; falls

- 3. What type of economic system does Swaziland have at present?**
 - (a) A free market system
 - (b) A command based system
 - (c) A monarchical decentralised tinkhundla system
 - (d) A combination of market and command based economy

- 4. The chief characteristic of the market economic system is:**
 - (a) Producer sovereignty
 - (b) barter
 - (c) centralised decision making
 - (d) consumer sovereignty

5. Utility can best be described as:

- (a) the amount one is willing to pay for a good
- (b) an abstract concept useful for obtaining predictions about human behaviour
- (c) a testable hypothesis about the level of happiness achieved from consumption of goods
- (d) the units that measure a person's income

6.

Units Consumed	Marcelle's utility	Ryan's utility
1	12	16
2	22	26
3	30	34
4	36	35

In the table above, what is Ryan's marginal utility from consuming the 3rd unit of the good?

- (a) 10
- (b) 8
- (c) 1
- (d) -10

7. A private good

- (a) is provided only by the public sector at a loss
- (b) is provided only by the private sector at a loss
- (c) can be consumed by many people simultaneously
- (d) cannot be consumed by many people simultaneously

8. A positive statement is one which is:

- (a) derived by induction
- (b) derived by deduction
- (c) subjective and is based on a value judgement
- (d) objective and is based on verifiable facts.

9. Technological efficiency occurs when a firm produces a given level of output:

- (a) at the least cost
- (b) using the least amount of inputs
- (c) at the most cost
- (d) using the most amount of inputs

10. The income that owners of land, labour, capital, and entrepreneurship receive are:

- (a) interest, wages, rent and profits respectively.
- (b) rent, wages, dividends, and interest respectively.
- (c) rent, profits, wages, and interest respectively
- (d) rent, wages, interest, and profits respectively.

11. The central problem in economics is that of:

- (a) comparing the success of command versus market economies
- (b) guaranteeing that production occurs in the most efficient manner
- (c) guaranteeing a minimum level of income for every citizen
- (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied as well as possible

12. In a free-market economy the allocation of resources is determined by:

- (a) votes taken by consumers
- (b) a central planning authority
- (c) by consumer preferences
- (d) the level of profits of firms

13. Elasticity

- (a) is the measure of sensitivity of a dependent variable to a change in an independent variable.
- (b) is the measure of how prices change.
- (c) is the tool that economists use to calculate what market action is appropriate.
- (d) depends on changes in quantity demanded.

14. The price elasticity of demand

- (a) Decreases as the further down the demand curve you move.
- (b) equals the $\frac{\% \text{change in price}}{\% \text{change in income}}$
- (c) equals the rate of change of the price
- (d) does not exist

15. Total revenue is maximised when?

- (a) Price elasticity of demand equals 1.
- (b) income elasticity is 1.
- (c) goods are perfect substitutes.
- (d) demand is equal to supply

16. The relationship between the marginal cost (MC) curve and the average total cost (ATC) curve is such that;

- (a) the two curves are mirror images of each other.
- (b) if $MC = ATC$, ATC reaches a maximum.
- (c) If MC is greater than ATC, ATC is declining
- (d) If MC is less than ATC, ATC is declining.

17. If a firm decides to produce no output in the short run. Its costs will be equal to;

- (a) marginal costs
- (b) fixed costs plus variable costs
- (c) fixed costs
- (d) zero

18. Which of the following goods or services would not be provided by a pure free-market?

- (a) public transport system
- (b) pension
- (c) national defence
- (d) education

19. Which of the following are considered to be essential characteristics of a public good?

- (a) it must be provided by the government
- (b) consumption by one person does not diminish the quantity available for others
- (c) once the good is provided, it is not possible to exclude people from consuming it
- (d) it must benefit the whole economy

20. The amount less that you pay for a product than that which you are willing to pay is known as:

- (a) the consumer surplus.
- (b) the producer's surplus
- (c) the profit
- (d) the loss

Question 2

- a) What are the three basic economic questions that all economies must answer? (3 marks)
- b) Suppose an individual spends all his monthly income on two goods, x and y.
- Draw his budget line if his income is E150 per month, the price of x is E10 per unit, and the price of y is E15 per unit. (12 marks)
 - Draw his budget line if the price of x triples. (5 marks)
- (Show all the calculations)
- c) Describe five characteristics of perfect competition. (10 marks)

Question 3

- a) Discuss whether the following can be classified under microeconomics or macroeconomics.
- Swaziland's sugar exports.
 - Determination of total student enrolment at UNISWA.
 - Determination of inflation rate in Swaziland.
 - Determination of appropriate wages to pay teachers in Swaziland.
 - Setting limits for the omission of exhaust fumes by cars into the air in Swaziland. (2 marks each)
- b) Consider the following data for commodity x:
- | | | | | | | |
|--------------------------------------|-----|----|----|----|----|----|
| Price (E per unit): | 2 | 4 | 6 | 8 | 10 | 12 |
| Quantity demanded (units per month): | 100 | 80 | 60 | 40 | 20 | 0 |
- Calculate the price elasticity of demand when price is E4 and when price is E10. (6 marks)
 - Calculate the price elasticity of demand in the following ranges:
 - E4 - E6
 - E10 - E12 (10 marks)
- c) Give an example of a perfectly competitive market in Swaziland, and another example of a monopolistically competitive market in Swaziland. (4 marks)

Question 4

a) Discuss the meaning of the following concepts and comment on their importance in economic theory.

- a. An economic problem
- b. Elasticity of demand
- c. Marginal Rate of Transformation
- d. Law of diminishing returns
- e. Unstable Equilibrium

(3 marks each)

b) Consider the following data for a firm:

Fixed cost: E8

Total cost (E):	10	16	18	28	45	66
Quantity Produced:	1	2	3	4	5	6

Calculate the following:

- i) Average total cost (ATC)
- ii) Average variable cost (AVC)
- iii) Average fixed cost (AFC)
- iv) Marginal cost (MC)

(2 marks each)

c) Sketch graphs that illustrate the following:

- i) Price ceiling (2 marks)
- ii) Perfectly inelastic demand curve (2 marks)
- iii) Knife-edge equilibrium (3 marks)