

University of Swaziland

Faculty of Social Sciences

Department of Economics

Re-Sit / Supplementary Examination Paper, July 2016

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

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Question 1

INSTRUCTIONS: CIRCLE THE CORRECT ANSWER.

- 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. Sally is a university student who likes to buy only two goods: coffee and cupcakes. Her utility for these two goods depends on:**
 - (i) Sally's preference for coffee and cupcakes**
 - (ii) The prices of coffee and cupcakes**
 - (iii) Sally's income**
 - (a) ii only
 - (b) i and ii
 - (c) i only
 - (d) i and iii

4. Jack has E100, which he spends on sweets and bread. If the price of sweets falls, Jack can:

- (a) consume more of both goods
- (b) consume more sweets only if he gives up more bread
- (c) consume more bread only if he gives up more sweets
- (d) consume more sweets only

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	Marcellle's utility	total	Ryan's utility	total
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. The market demand curve is:

- (a) used to derive individual demand curves
- (b) the sum of the quantity demanded by each individual at each price
- (c) the same as the market's marginal utility curve
- (d) obtained by summing each individual's marginal utility curve

- 8. the market demand curve for onions will shift when:**
- (a) the price of tomatoes changes
 - (b) the people's income increases
 - (c) the price of onions change
 - (d) technology for pest control on onion farms is improved
- 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. A command system is a method of coordinating the productive resources that a firm hires. It:**
- (a) uses the invisible hand of the market
 - (b) relies on incentive systems
 - (c) is based on managerial hierarchy
 - (d) completely overcomes the principal-agent problem
- 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. Which of the following would not be considered a factor of production?

- (a) A bulldozer owned by a firm.
- (b) £200, 000 in a firm's saving account
- (c) A firm's work force
- (d) A firm's plant and equipment

14. When specifying economic models, economists often make assumptions about the real world. The purpose of assumptions in the economic theory is to

- (a) make the model more realistic
- (b) simplify the model and provide a primary focus for the theory
- (c) insure that the model only covers specific conditions
- (d) guarantee the accuracy of the theory

15. Which of the following would be considered a disadvantage of allocating resources using a market system?

- (a) income will tend to be unevenly distributed
- (b) significant unemployment may occur
- (c) it cannot prevent the wastage of scarce economic resources
- (d) a misallocation may occur where there is a discrepancy between private and social costs

16. Which of the following statements would you consider to be a normative one?

- (a) faster economic growth should result if an economy has a higher level of investment
- (b) changing the level of interest rates as a better way of managing the economy than using taxation and government expenditure
- (c) higher levels of unemployment will lead to higher levels of inflation
- (d) the average level of growth in the economy was faster in the 1990s than the 1980s

17. Which of the following is not a resource as the term is used by economists?

- (a) land
- (b) labour
- (c) buildings
- (d) money

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. What is meant by allocative efficiency?

- (a) getting the right goods to the right people at the right price
- (b) producing using the optimum factor combination
- (c) ensuring that sufficient is spent on research and development to ensure the development of new goods and services
- (d) giving appropriate incentives for firms and consumers

Question 2

- a) What are the major characteristics of an Oligopoly industry? (5 marks)
- b) Describe the nature of each of the following phenomena and discuss the factors giving rise to each one:
- i) Internal economies of scale (12 marks)
 - ii) External economies of scale (7 marks)
 - iii) Internal diseconomies of scale (6 marks)

Question 3

- a) Discuss the meaning and significance of the following terms:
- i) Demand vs. supply of goods
 - ii) Efficiency vs. Equity considerations
 - iii) Equilibrium vs. Disequilibrium Analysis
 - iv) Positive vs. Normative Economics
 - v) Short-run vs. Long-run
- (4 marks each)
- b) Use the information below to sketch the producer equilibrium position. Spell-out all your assumptions.

There are two inputs, labour and capital with prices w and k respectively. The producer has a total of Y Emalangi available for the purchase of inputs.

(10 marks)

Question 4

- a) Describe five factors influencing the size of the elasticity of Supply. (10 marks)
- b) In the case of a monopoly industry there is restricted entry because of barriers to entry; discuss two of these barriers (use examples). (10 marks)
- c) Describe the nature of an economic problem. (10 marks)