

University of Swaziland
Faculty of Social Science
Department of Economics
Supplementary Examination
July 2017

Title of paper : Principles of Microeconomics
Course Code : ECO 101/ IDE-ECON 102
Time allowed : Two (2) hours
Instructions : Answer question 1 (one) and any other two questions

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

Question One

- a) Use graphs and equations to depict a consumer's utility maximizing point subject to a budget constraint. (10 marks)
- b) Use graphs and equations to depict the cost minimizing point for a producer. (10 marks)
- c) Compare the strengths and weaknesses of the market and planned economic systems. Which would you prefer between two and why? (10 marks)
- d) Define increasing and constant opportunity cost. Which is more realistic between the two and why? (5 marks)
- e) State the law of diminishing returns and the law of diminishing marginal utility. (5 marks)

Question Two

- a) Enumerate five (5) major characteristics of a capitalist economic system. (10 marks)
- b) Suppose a cotton producer, Mr Lukhele, has E20,000 to spend on two inputs (capital of labour). Draw his isocost line given that the prices of inputs are E1, 000 per unit of capital and E500 per unit of labour. (Show all the calculations). (10 marks)
- c) Sketch graphs that illustrate the following concepts.
 - i) Price elasticity of demand is equal to zero.
 - ii) Price elasticity of demand is equal to infinity. (4 marks)
- d) What is an Engel Curve? Explain using a graph. (6 marks)

Question Three

- a) Determine which of the following are examples of positive and normative statements. (2 marks each)
- i) When commercial banks offer higher interest rates on savings, people save more.
 - ii) The Swaziland government should provide more subsidies on Swazi Nation Land (SNL).
 - iii) Tax evasion is illegal in Swaziland.
- b) Outline four characteristics of isoquants. (8 marks)
- c) Explain the following terms.
- i) Income-consumption curve
 - ii) Price-consumption curve
 - iii) Substitution effect
 - iv) Income effect
- (4 marks each)

Question Four

- a) Draw an isoquant map of a good where.
- i) Capital and labour have to be used in fixed proportion.
 - ii) Capital and labour are perfect substitutes for each other.
 - iii) The average and marginal products of one of the production factors (K and L) are Zero. (6 marks)
- b) List seven characteristics of monopolistic competition. (7 marks)
- c) Explain the four barriers to entry that could enable a monopoly firm to earn supernormal profits both in the Short-run and in the long-run. (12marks)
- d) Define the law of demand. (5 marks)