UNIVERSITY OF SWAZILAND

FACULTY OF SOCIAL SCIENCE

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY/ RESIT EXAMINATION PAPER

JULY, 2018

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

COURSE CODE: ECO101/IDE-ECO101/IDE-ECON 102

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. IN SECTION A ANSWER QUESTION 1 (COMPULSORY) AND ANY OTHER QUESTION BETWEEN QUESTIONS 2 AND 3.

2. IN SECTION B ANSWER QUESTION 4 (COMPULSORY) AND ANY OTHER QUESTION BETWEEN QUESTIONS 5 AND 6

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SECTION A

Question 1 Compulsory (Total marks 30)

a) Describe the concepts of constant and increasing opportunity costs. Use graphs to show the two. (6 marks)

b) Using one example each, distinguish between normative and positive economics. (4 marks)

c) List five determinants of demand. (5 marks)

d) Define consumer and producer surplus. Show the two in one graph. (6 marks)

e) One of the features of indifference curves is that they should not intersect. Why is this important? (4 marks)

f) List three features of iso-product curves. Use equations to depict the equilibrium position for a producer (5 marks)

Question 2

a) Using equations and a graph, explain the equilibrium position for a consumer. (10 marks)

b) Define the price elasticity of demand, price elasticity of supply, income elasticity of demand, and cross price elasticity of demand. (10 marks)

Question 3

a) Fill in the missing details in the table below: be sure to state formula for marginal utility. (5 marks)

Number of pears consumed	Marginal utility	Total utility
1		50
2		85
3		114
4		132
5		144
6		150
7		152
8		152
9		148

b) There are possible exceptions to the law of demand. Explain this statement. (5 marks)

c) The indifference approach is based on three basic assumptions. Outline these assumptions.(5 marks)

d) Discern between the income and substitution effects of a price change. Assume a price decrease for a normal good. (5 marks)

SECTION B

Question 4 Compulsory (Total marks 30)

A. Read each question carefully, and choose only **ONE** correct answer for each question.

1. At a long-run equilibrium in monopolistic competition, price equals

a) Marginal cost but not marginal revenue

b) Average total cost

c) Marginal revenue and marginal cost

d) Marginal revenue but not marginal cost

2. The absence of barriers to entry in monopolistic competition means that in the long run firms

a) Earn either an economic profit or zero economic profit

b) Earn zero economic profit

c) Incur an economic loss

d) Earn an economic profit

3. If a large number of firms are competing, the market could be

a) Monopolistic competition and monopoly

b) Perfect competition and monopoly

c) Oligopoly and monopoly

d) Perfect competition and monopolistic competition

4. A monopoly creates a deadweight loss because the monopoly

a) Sets a price that is low

b) Produces less than the efficient quantity

c) Does not maximize profits

d) Earns a normal profit

5. A price-discrimination monopoly is a monopoly that

a) Has a license to sell the product

b) Sells its output at a single price to all its customers

c) Illegally charges its customers different prices for the good it produces

d) Sells different units of a good or service at different prices

6. Patents

a) Remove legal barriers to entry

b) Create economies of scale

c) Are a legal barrier to entry

d) Decrease the incentive to innovate

7. In the long run, existing firms exit a perfectly competitive market

a) If normal profits are greater than zero

b) Only if they incur an economic loss

c) If they incur a positive profit

d) Only if economic profits are zero

8. In the long run, a perfectly competitive firm

a) Makes zero economic profits

b) Makes an economic profit

c) Can make an economic profit, zero economic profit, or incur an economic loss

d) Can make either an economic profit or a normal profit

9. A perfectly competitive firm will shut down when the price is just below the minimum point on the

a) Marginal revenue curve

b) Average fixed cost curve

c) Average total cost curve

d) Average variable cost curve

10. Cartels are most likely to arise in which of the following market structures

a) Perfect competition

b) Monopolistic competition

C) Oligopoly

d) Monopoly

11. If the marginal revenue product of labour is greater than the wage rate, what should a profit maximizing firm in a competitive labour market do?

a) Hire less labour

b) Hire more labour

c) Decrease the wage rate

d) Increase the wage rate

12. Equilibrium quantities in markets characterized by oligopoly is

a) Lower than in monopoly markets and higher than in perfectly competitive markets

b) Lower than in monopoly markets and lower than in perfectly competitive markets

c) Higher than in monopoly markets and higher than in perfectly competitive markets

d) Higher than in monopoly markets and lower than in perfectly competitive markets

13. Which of the following is a characteristic of a perfectly competitive market?

a) Product differentiation

b) Few sellers in the market

c) Firms can exit and enter the market freely

d) All of the above

14. If a perfectly competitive firm currently produces where price is greater than marginal cost it

a) Will increase its profits by producing more

b) Will increase its profits by producing less

c) Is making positive economic profits

d) Is making negative economic profits

15. Indicate below what is not a factor of production

a) Land

b) A bank loan

c) Labour

d) Capital

[1 mark each]

B. Read each statement and indicate whether the statements are **True** or **False**. Write answer in full.

1. In the market for factors of production, prices of these factors are determined by the interaction between demand and supply.

2. Under perfectly competitive markets, an individual firm cannot make a decision about the number of workers to employ.

3. The marginal revenue product of an input is equal to the additional cost incurred from hiring an additional unit of that input.

4. Unlike in the case of market failure, governments cannot fail.

5. Oligopsony is characterised by a few employers of a certain type of labour.

6. A bilateral monopoly is when a monopsonist employer faces a monopolist union (one union representing all workers).

7. A wage-taker is a worker that takes his or her wage from the market because there is such a large supply of labour.

8. The special case of a market dominated by two firms is called a monopolistic competition.

9. Above-normal profit is the rate of return necessary to keep factors of production in their present use.

10. If more firms enter a perfectly competitive industry, market equilibrium price will increase.

11. When compared to monopoly, oligopoly results in a kinked demand curve.

12. A monopolist may be able to maintain above-normal profits in the long run.

13. Oligopolists may engage in non-price competition.

14. Marginal disutility is the cost involved when a worker works.

15. Factors of production are not rewarded for their efforts in the production process.

[1 mark each]

Answer any one question

Question 5

a) Briefly explain the backward bending labour supply curve. Use a graph to illustrate your answer. [10 marks]

b) What is the difference between economic rent and transfer earnings? [10 marks]

Question 6

a) Explain how barriers of entry may affect market structure.

[10 marks]

b) Discuss five factors that influence the wage elasticity of demand for labour.

[10 marks]