

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
MAIN EXAMINATION
NOVEMBER 2018

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

COURSE CODE: ECO 101/IDE-ECON102/IDE-ECO101

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1) IN SECTION A ANSWER QUESTION 1 (COMPULSORY) AND THEN CHOOSE EITHER QUESTION 2 OR QUESTION 3.
- 2) IN SECTION B ANSWER QUESTION 4 (COMPULSORY) AND THEN CHOOSE EITHER QUESTION 5 OR 6
- 3) START EACH QUESTION ON A NEW PAGE.

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SECTION A

Question 1 Compulsory (Total 30 marks)

a) State the formula for each of the following:

- (i) Marginal rate of substitution between goods A and B.
- (ii) Marginal rate of technical substitution.
- (iii) Marginal utility.
- (iv) Marginal product of labour.
- (v) Marginal physical product of capital.
- (vi) Average product of labour.
- (vii) Average cost.
- (viii) Marginal cost.
- (ix) Economic profit.
- (x) Average variable costs.
- (xi) Average fixed cost.
- (xii) Marginal revenue.
- (xiii) Average total cost.
- (xiv) Total costs in the short run.
- (xv) Economic costs.**

(1 mark each)

b) Sketch a demand and a supply curve in one graph. Show the equilibrium point. Show what would happen if there was an increase in income, yet the good in question, say good B, is an inferior good? **(5 marks)**

c) List the different types of economic systems. What are the characteristics used to compare these systems? **(6 marks)**

d) Using a graph explain why indifference curves should not cross. **(4 marks)**

Answer either Question 2 or Question 3

Question 2

a) In one sentence(not more than 3 lines) define each of following:

(i) Short run production function.

(ii) Law of diminishing marginal returns.

(iii) Economies of scope.

(iv) Economies of scale.

(v) Law of substitution.

(vi) Snob effect.

(2 marks each)

b) Sketch the two extreme cases of indifference curves. Be sure to label the axis. (5 marks)

c) The indifference approach is based on a number of assumptions. Explain. (3 marks)

Question 3

a) Define the income and substitution effects of a price change. (5 marks)

b) Define and sketch the income consumption and price consumption curves separately. (10 marks)

c) Sketch the long run average cost curve and show the regions for economies of scale and diseconomies of scale. (5 marks)

SECTION B

Question 4 Compulsory (total 30 marks)

- a) The concept of elasticity is an important one in economics. List three demand related elasticities and provide a definition (including the formula) of each. [12 marks]
- b) Explain briefly why the marginal disutility of work will tend to increase as people work more hours. Give two reasons. [6 marks]
- c) Outline the six characteristics of perfect competition. [12 marks]

Answer any one question from the following:

Question 5

(total 20 marks)

- a) Suppose price of good X rises from E1.40 to E1.80, and the demand falls from 220,000 units to 180,000 units. Calculate the price elasticity of demand and comment on its magnitude. [8 marks]
- b) In the case of a Monopoly industry there is restricted entry because of barriers to entry, discuss three of these barriers. [6 marks]
- c) Describe briefly three reasons why markets may fail in the economy. [6 marks]

Question 6

(total 20 marks)

- a) Explain, by use of a graph, the backward-bending supply curve of labour. [10 marks]
- b) Sketch graphs that represent the following:
- a. Price elasticity of demand is equal to zero. [2 marks]
 - b. Price elasticity of demand is equal to infinity. [2 marks]
- c) Explain two reasons for existence of a cartel in an economy where few firms dominate the industry. [6 marks]