

UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY/RESIT EXAMINATION
JANUARY 2019

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

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SECTION A

Question 1 Compulsory total 30 marks

- a) Define an economic system. How can one economic system be differentiated from another? Discern between a command and market economic systems. (10 marks)
- b) Use a PPC to illustrate the concept of opportunity cost. Show what happens to the PPC when the economy grows, (5 marks)
- c) Show and explain the equilibrium for a consumer who maximises utility subject to a budget constraint and a producer who minimises cost. (15 marks)

Answer either question 2 or question 3

Question 2

- a) Show on a graph, and explain increasing, decreasing and constant returns to scale. (10 marks)
- b) Explain the law of substitution, law of demand and law of diminishing marginal returns. (6 marks)
- c) Outline the assumptions underlying indifference curve analysis. (4 marks)

Question 3

- a) Explain why indifference curves should not cross. Use a graph. (5 marks)
- b) There is a direct relationship between the marginal rate of substitution and the marginal utility. Explain. (5 marks)
- c) Outline the assumptions used to sketch a PPC. (5 marks)
- d) Outline any five determinants of market supply. (5 marks)

SECTION B

Question 4 Compulsory (total 30 marks)

- a) Distinguish between supply and elasticity of supply. [6 marks]
- b) Suppose the price of apples decreases from E10 to E8, ceteris paribus, and the quantity supplied falls from 80 kg to 50 kg per week. Calculate the price elasticity of supply and comment on its magnitude. [8 marks]
- c) Explain any two major differences between a perfectly competitive industry and a monopolistic industry. Provide a suitable example of each. [10 marks]
- d) Provide a definition (including the formula) of the Marginal Revenue Product of an input. [6 marks]

Answer any one question from the following:

Question 5

(total 20 marks)

- a) Explain briefly why in the long run employers operating in perfectly competitive or monopolistic competitive markets have no scope for higher wages. [5 marks]
- b) Explain briefly why the demand for factors of production is said to be a derived demand. [5 marks]
- c) Outline the five factors that determine the size of elasticity of demand. [10 marks]

Question 6

(total 20 marks)

- a) Draw a graph showing the short-run equilibrium position of a monopolistic firm, highlighting the equilibrium price, output, and total profit or loss. [8 marks]
- b) Describe the three characteristics of a monopoly. [6 marks]
- c) What is cross elasticity of demand? When is it positive and negative? [6 marks]