UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
RE-SIT EXAMINATION PAPER: JANUARY 2019

TITLE OF PAPER   :   MICROECONOMICS I

COURSE CODE   :   ECO 201/ IDE ECO 201

TIME ALLOWED   :   TWO (2) HOURS

INSTRUCTIONS   :
1. ANSWER QUESTION ONE (1) AND ANY TWO (2) QUESTIONS OF YOUR CHOICE.
2. QUESTION ONE (1) CARRIES FORTY (40) MARKS AND THE OTHER QUESTIONS YOU WILL CHOOSE CARRY THIRTY (30) MARKS EACH.
3. NON PROGRAMMABLE CALCULATORS ARE ALLOWED.
4. WHERE NECESSARY, FIGURES ARE TO BE ROUNDED UP TO TWO (2) DECIMAL POINTS.

THIS QUESTION PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR

QUESTION 1 – COMPULSORY   (Total =40 Marks)

a) Define the concepts of consumer and producer surpluses.   [5 Marks]

b) Explain and graphically illustrate how the change in consumer surplus is measured when the government introduces a per unit tax on the good.   [7 Marks]

c) Briefly explain the concepts of **Economies** and **Diseconomies of Scale**.   [6 Marks]

d) Distinguish between Accounting costs and Economic Costs.   [5 Marks]

e) Suppose that a firm sells 2000 units of product in a month when the price is $E150$ per unit. If it is known that the price elasticity of demand for the product is -0.8, how many units will your firm sell if the price were to be increased to $E200$ per unit?   [8 Marks]

f) At the market equilibrium, quantity demanded equals the quantity supplied and any tendency for a divergence from the equilibrium, will always revert back. With the aid of a diagram, explain this concept.   [9 Marks]

ANSWER ANY TWO (2) QUESTIONS FROM THE FOLLOWING:

QUESTION 2

a) Suppose that Mncobi's income increases while all the prices of the commodities he consumes remain constant.

   i)   Show graphically and explain fully the kind of curve that would result from only the increase in income.   [18 Marks]

   ii) Judging from the slope of the curve you derived in (i) above, what type of a good does it represent?   [2 Marks]

   iii) Differentiate between a price-consumption curve and an income-consumption curve.   [10 Marks]

QUESTION 3

a) The output of Baker's Corner in Matsapha is represented by the following production function: $Q = AL^\alpha K^\beta$ where $0 < \alpha < 1$, $0 < \beta < 1$ & $\alpha + \beta = 1$:

   i)   Find the marginal products of labour and capital.   [10 Marks]

   ii)   Find the marginal rate of technical substitution of labour on capital.   [10 Marks]

b) Write short explanatory notes on the following:

   i)   Diminishing marginal rate of technical substitution.   [5 Marks]

   ii)   Isocost line   [5 Marks]

QUESTION 4

a) Describe and graphically illustrate the concept of Returns to Scale.   [15 Marks]

b) Using the following Cobb-Douglas production function, demonstrate the concept of returns to scale. $Q = AK^\alpha L^\beta$, where A, α and β are all positive constants.   [15 Marks]