

**UNIVERSITY OF ESWATINI
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
SUPPLEMENTARY/RESIT EXAMINATION PAPER:
JANUARY 2019**

TITLE OF PAPER : INTERMEDIATE MICROECONOMICS

COURSE CODE : ECO 301

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) Differentiate between the Weak Axiom of Revealed Preference (WARP) and the Strong Axiom of Revealed Preferences (SARP) (10)
- b) For the following indirect utility function $V(P, M) = \frac{3}{2} \cdot \frac{M}{(P_x P_y)^{1/2}}$, derive the Marshallian demand functions for Goods X and Y. (10)
- c) For the following expenditure function $E(P, U) = \frac{2}{3} U (P_x P_y)^{1/2}$, derive Hicksian or Compensated demand functions for Goods X and Y. (10)
- d) Use the appropriate theorem to derive the hicksian demand function for the good X. (10)

ANSWER ANY TWO (2) QUESTIONS FROM THE FOLLOWING:

QUESTION 2

Write short explanatory notes on the following factor market concepts: (5 marks each)

- i) Why is the demand for labour referred to as the derived demand?
- ii) Marginal Revenue product of labour
- iii) Marginal input cost
- iv) Marginal Disutility of work
- v) Substitution effects versus Income effects in factor markets
- vi) What is the economic interpretation of the second order necessary condition for profit maximization under monopsony?

QUESTION 3

- a) Argue the case why a contract curve in a standard two-person, two-commodity pure exchange economy represents a pareto efficient allocation. (15)
- b) According to Walrus law the value of aggregate excess demand is identically zero, and this is true for all possible choices of prices and not just the equilibrium prices. Provide an algebraic proof of this assertion. (15)

QUESTION 4

- a) What is a strategy in game theory? (3)
- b) What is a Nash equilibrium in game theory? (3)
- c) Create a normal form game of your choice with the relevant payoffs that illustrates the concept of a dominated strategy. (Game should have two players and three strategies) (6)
- d) The prisoner's dilemma game shows that rational individuals might not choose to cooperate even if it might seem that it is in their best interest to do so. Analyse this statement with an example of your choice of a Prisoner's dilemma game. (13)
- e) Represent the prisoner's dilemma game in (c) above as an extensive form. (5)

*****GOOD LUCK*****