UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, NOVEMBER 2019

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO101

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Sections (A), (B) and (C).
2. Section A is compulsory. Neatly shade the correct answer on the multiple choice sheet provided.
3. Answer one question from Section B, and one question from Section C

Special Requirements

Scientific calculator

Additional Material (s)

1. Multiple Choice Sheet for Section A

*Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must **NOT** write anything else until the start of the examination period is announced.*

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so.

SECTION A (COMPULSORY) **[2 Marks Each]** **[Total = 60 Marks]**

1. Economics is
   a) the study of things we need to survive
   b) the study of how people make choices when they are face with an unlimited supply of resources
   c) the study of how people make choices when they are faced with a limited supply of resources
   d) the study of luxury items we want to make life easier

2. The safest way for an individual to leave a burning theater is to run for the nearest exit; it is therefore also the best means of escape for a large audience. This assertion illustrates the:
   a) "after this, therefore because of this" fallacy.
   b) correlation fallacy.
   c) fallacy of composition.
   d) fallacy of limited decisions

3. "Consumer sovereignty" means that:
   a) buyers can dictate the prices at which goods and services will be offered.
   b) advertising is ineffective because consumers already know what they want.
   c) buyers control the quality of goods and services through regulatory agencies.
   d) buyers determine what will be produced based on their "lilangeni votes" for the goods and services offered by sellers.

4. Producer surplus:
   a) is the difference between the maximum prices consumers are willing to pay for a product and the lower equilibrium price.
   b) rises as equilibrium price falls.
   c) is the difference between the minimum prices producers are willing to accept for a product and the higher equilibrium price.
   d) is the difference between the maximum prices consumers are willing to pay for a product and the minimum prices producers are willing to accept

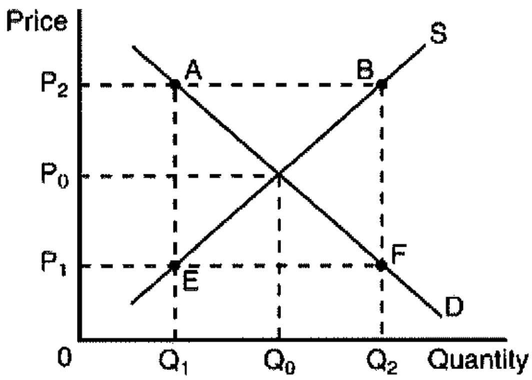
5. According to the law of demand, other things being equal
   a) when the price a good goes up, then people buy more of that good.
   b) when the price a good goes up, then people buy less of that good.
   c) when people's income goes up, then they buy more of a good.
   d) when people's income goes up, then they buy less of a good.

6. An increase in demand is shown graphically by
   a) a shift of the demand curve to the left.
   b) a movement up along the existing curve.
   c) a shift of the demand curve to the right.
   d) a movement down the existing curve.

7. According to the law of supply
   a) people buy more of a good when the price increases.
   b) people buy less of a good when the price decreases.
   c) producers provide more of a good when the price decreases.
   d) producers provide less of a good when the price decreases.

8. Suppose that milk producers expect that the price of milk is going to drop next week. This would cause
   a) a decrease in the supply of milk today.
   b) an increase in the supply of milk today.
   c) an increase in the demand for milk today.
   d) the selling price of milk to rise today.

9. Refer to the following figure:



The highest price that consumers would be willing to pay for quantity Q_2 is
   a) P_2
   b) P_0
   c) P_1
   d) cannot be determined from the diagram.

10. Use the following data to answer the following question:

Quantity produced	1	2	3	4	5
Fixed costs	100	100	100	100	100
Variable costs	200	300	350	700	1 400

What is the marginal cost of the third unit?

a) 100
b) 300
c) 50
d) 700

11. Which one of the following statements is **correct**?
   a) The short run is a time period of one year or less.
   b) The short run is a period of time during which the quantities of all inputs can be varied, but technology is held constant.
   c) The short run is a period of time during which the quantity of at least one input is fixed and the quantities of the other inputs can be varied.
   d) The long run is a period of time during which the quantities of all factor inputs are fixed.

12. Use information in the following table to answer the question:

Cocaine (total product) (units)	**Total Variable Cost (TVC) (Emalangeni)**
1	200
2	360
3	500
4	700
5	1 000
6	1 800

The average variable cost to the firm when 4 units of cocaine are produced is:

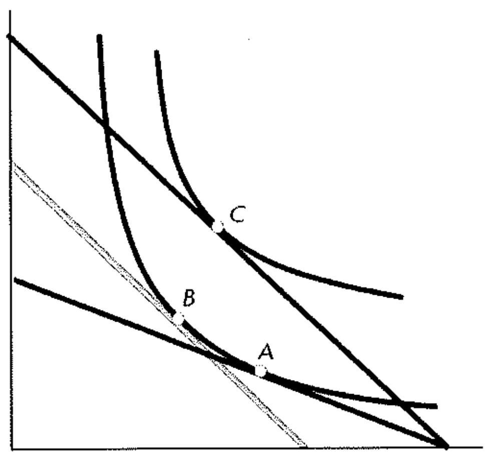
a) E175
b) E200
c) E300
d) E700

13. The price elasticity of demand shows
    a) the relationship between market price and household income.
    b) the proportionate amount by which the quantity demanded changes in response to a proportionate change in price.
    c) the quantity demanded at a given price.
    d) the proportionate amount by which the price changes in response to a proportionate change in quantity demanded.

14. Suppose the quantity demanded of ice cream cones increases from 400 to 425 cones a day when the price is reduced from $E1.50$ to $E1.25$. In this situation, the elasticity of demand, calculated using the midpoint/arc method, is
    a) 3
    b) 1
    c) 0.33
    d) 1.33

15. A supply curve that is parallel to the quantity axis is
    a) perfectly elastic.
    b) perfectly inelastic.
    c) relatively inelastic.
    d) unitary elastic.

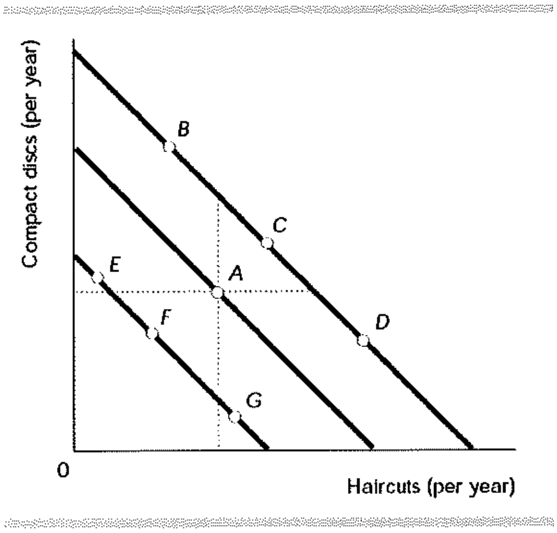
16. In the following figure



Good X is on the horizontal axis and Good Y is on the vertical axis. The figure illustrates a change in consumption coming from a drop in the price of good Y. The _____ effect decreased consumption of Good X and the _____ effect increased the consumption of Good X. The _____ effect was larger on Good X.

a) income, substitution, substitution
b) substitution, income, income
c) income, substitution, income
d) substitution, income, substitution

17.



In the figure above, if the lines are indifference curves and if compact discs and haircuts are perfect substitutes, then points B, C, D in the diagram

a) Have the same marginal rate of substitution.
b) Are all preferred to by the consumer compared to point A.
c) Are all equally preferred by the consumer.
d) All of A, B and C are true

18. Which of the following is a barrier to entry that typically results in monopoly?

a) The firm controls the entire supply of a raw material.
b) Production of the industry's product is subject to economies of scale over a broad range of output.
c) Production of the industry's product requires a large initial capital investment.
d) The firm holds an exclusive government franchise

19. When a perfectly competitive industry is in long-run equilibrium, all firms in the industry

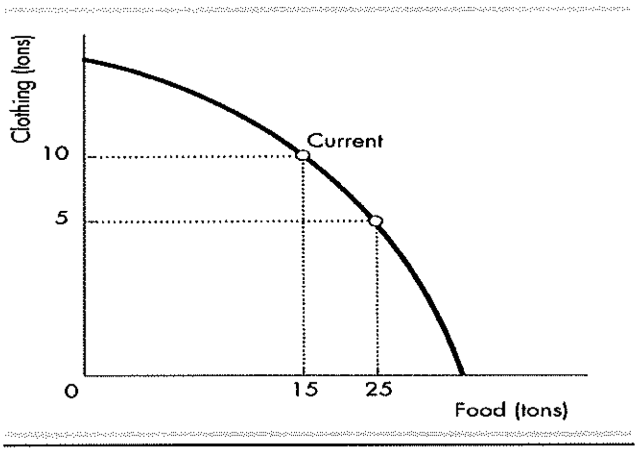
a) earn zero economic profits.

b) produce a level of output where short-run marginal cost is equal to short-run average total cost.
c) produce a level of output where long-run marginal cost is equal to long-run average cost.
d) All of the above are correct.

20. Marginal revenue is equal to price for which one of the following types of market structure?
a) Monopoly
b) Perfect competition
c) Monopolistic competition
d) Oligopoly

21. The production possibilities frontier is
a) upward sloping and reflects unlimited choices.
b) upward sloping and reflects trade-offs in choices.
c) downward sloping and reflects unlimited choices.
d) downward sloping and reflects trade-offs in choices.

22.



The above figure illustrates that if this country wishes to move from its current production point (labeled "Current") and have 10 more tons of food, it can do this by producing
a) 10 more tons of clothing.
b) 10 fewer tons of clothing.
c) 5 more tons of clothing.
d) 5 fewer tons of clothing.

23. The principle of increasing opportunity cost leads to
   a) a production possibilities frontier (PPF) that is bowed inward from the origin.
   b) a production possibilities frontier (PPF) that is bowed outward from the origin.
   c) an inward shift of the production possibilities frontier (PPF).
   d) an outward shift of the production possibilities frontier (PPF).

24. How is marginal utility defined?
   a) The utility gained from consuming the first unit of a given good.
   b) The derivative of utility with respect to the number of goods consumed.
   c) The total utility gained from consuming a bundle of goods.
   d) The utility gained from consuming only one good

25. A key factor that leads to economic growth is
   a) human capital accumulation.
   b) increasing current consumption.
   c) avoiding the opportunity cost of investment.
   d) both answers A and B are correct.

26. In an eight-hour day, Andy can produce either 24 loaves of bread or 8 pounds of butter. In an eight hour day, Bob can produce either 8 loaves of bread or 8 pounds of butter. We know that Andy has a comparative advantage in the production of
   a) bread, while Bob has a comparative advantage in the production of butter.
   b) butter, while Bob has a comparative advantage in the production of bread.
   c) bread and neither has a comparative advantage in the production of butter.
   d) both bread and butter.

27. The major similarity between monopolistic competition and perfect competition is
   a) the shape of the demand curve.
   b) that both assume many buyers and sellers.
   c) price equals marginal revenue in each.
   d) both assume products are differentiated.

28. A monopolistic competitor in long-run equilibrium is like a perfect competitor in that
   a) price equals marginal cost.
   b) price is greater than marginal cost.
   c) zero economic profits are made.
   d) both produce at the minimum points of their average total cost curves.

29. Managers in oligopoly firms must
    a) eliminate any barriers to entry if they hope to make short-run profits.
    b) advertise heavily in order to differentiate their product.
    c) anticipate the reaction of rival firms.
    d) establish many varieties of their products to cover the spectrum of consumer tastes.

30. An association of producers in an industry that agree to set common prices and output quotas to prevent competition is
    a) a tariff.
    b) a patent.
    c) economies of scale.
    d) a cartel.

SECTION B (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 2 **[20 Marks]**

a) State the "law of demand". [3 Marks]

b) Use a diagram to illustrate and explain what will happen to the equilibrium price and quantity of a product if the demand for the product increases. [7 Marks]

c) Differentiate between price elasticity of demand and income elasticity of demand. [4 Marks]

d) With the aid if a graph, differentiate between a perfectly elastic and a perfectly inelastic supply curve. [6 Marks]

OR

QUESTION 3 **[20 Marks]**

a) List four characteristics of a monopolistic competitive market. [5 Marks]

b) Oligopoly firms often collude by forming a cartel to limit competition in the industry. List five conditions that should exist for the collusion to be successful. [5 Marks]

c) Briefly explain how product diversification and advertising can be used by an oligopoly firm as a barrier to entry into the industry. [10 Marks]

SECTION C (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 4 **[20 Marks]**

a) The fundamental economic problem can be best be described by the link between the concepts of scarcity, trade off, and opportunity cost. Explain how these concepts link up to explain the basic economic problem. [10 marks]

b) Discuss three assumptions of indifference curve analysis [6 marks]

c) Graphically present the equilibrium condition for an individual consumer who spends all his income (I) on two goods (x and y) whose prices are P_x, and P_y, respectively. [4 marks]

OR

QUESTION 5 **[20 Marks]**

Discuss the meaning and significance of any four of the following economic concepts:

a) Production Possibility Frontier

b) Consumer Surplus

c) Veblen good vs. Normal good

d) Short run vs. Long run

e) Marginal rate of substitution [4 marks each]

STUDENT I.D. # : ____________________

PROGRAMME : ____________________

COURSE CODE : ____________________

DATE : ____________________

VENUE : ____________________

Neatly shade only one option

Question	a	b	c	d
1.	O	O	O	O
2.	O	O	O	O
3.	O	O	O	O
4.	O	O	O	O
5.	O	O	O	O
6.	O	O	O	O
7.	O	O	O	O
8.	O	O	O	O
9.	O	O	O	O
10.	O	O	O	O
11.	O	O	O	O
12.	O	O	O	O
13.	O	O	O	O
14.	O	O	O	O
15.	O	O	O	O
16.	O	O	O	O
17.	O	O	O	O
18.	O	O	O	O
19.	O	O	O	O
20.	O	O	O	O
21.	O	O	O	O
22.	O	O	O	O
23.	O	O	O	O
24.	O	O	O	O
25.	O	O	O	O
26.	O	O	O	O
27.	O	O	O	O
28.	O	O	O	O
29.	O	O	O	O
30.	O	O	O	O