UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, APRIL 2021

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 sheets provided and place them inside the answer booklets.
3. Answer one question from Section B, and one question from Section C

Special Requirements

Scientific calculator

Additional Material (s)

1. Multiple Choice Sheets 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) **[1.5 Marks Each]** **[Total = 30 Marks]**

1. A mixed economic system is also referred to as a planned economic system.
   a) True
   b) False

2. Economic growth results in a shift inward of the production possibilities frontier.
   a) True
   b) False

3. When prices of inputs rise demand for goods and services rises.
   a) True
   b) False

4. As the number of households goes up, the quantity of goods demanded increases.
   a) True
   b) False

5. A movement along a demand curve occurs when there is a change in the prices of other related goods.
   a) True
   b) False

6. When sketching the demand curve, we assume that the price of the good will remain constant.
   a) True
   b) False

7. Consumer surplus is represented by the area below the supply curve and above the price.
   a) True
   b) False

8. Illegal or Black markets occur in any situation where the market forces of demand and supply cannot eliminate excess demand.
   a) True
   b) False

9. Demand is inelastic when the elasticity of demand lies between 0 and 1.
   a) True

b) False

10. Total revenue reaches a maximum when the price elasticity of demand is equal to one.
   a) True
   b) False

11. 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

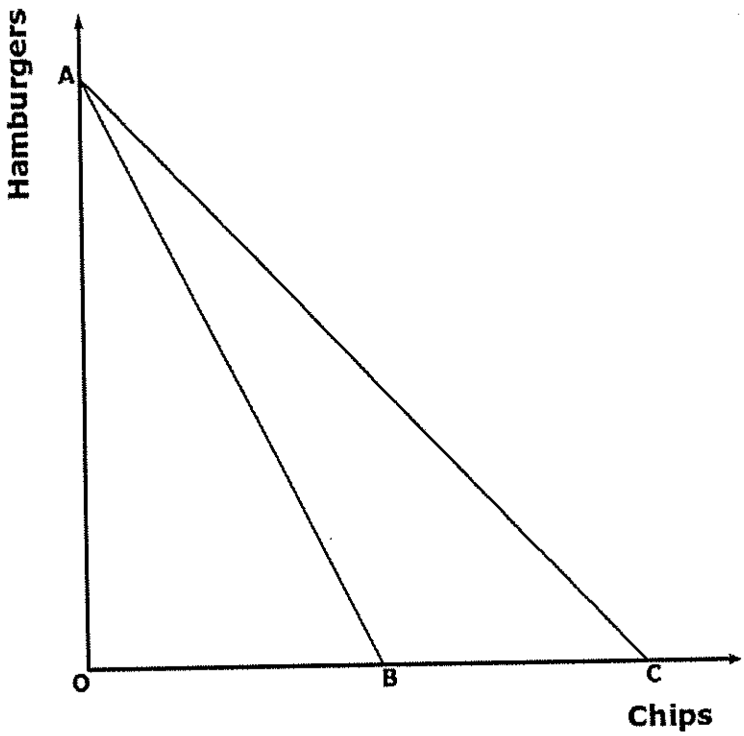
What is the marginal cost of the third unit?
   a) 100
   b) 300
   c) 50
   d) 700

12. Which one of the following statements about indifference curves is **false**?
   a) They connect points of equal utility to the consumer.
   b) The indifference curve that lies furthest from the origin indicates the greatest level of consumer satisfaction.
   c) When two indifference curves cross, the one that ends on the right-hand side indicates the greatest level of consumer satisfaction.
   d) Indifference curve analysis can be used to derive predictions about the impact on quantity demanded of changes in consumer incomes.

13. Consumer equilibrium is illustrated:
   a) where the budget line intersects the indifference curve that lies closest to the origin.
   b) where the budget line just touches (is tangent) an indifference curve.
   c) where the budget line intersects the indifference curve that is quite far away from the origin.
   d) by a point where the slope of the budget line is greater than the slope of the indifference curve.

14. As more and more units of a good are consumed by a household, the total utility gained from that good will:
   a) diminish.
   b) increase, but by successively smaller amounts.
   c) rise steeply.
   d) remain unchanged.

15. Consider the following diagram showing two budget lines, AB and AC. Use this diagram to answer the following question



If the budget line pivots from AB to AC, this indicates that:
   a) consumers' income has increased.
   b) hamburgers are normal goods, while chips are inferior goods.
   c) the price of hamburgers has increased.
   d) the price of chips has fallen.

16. Utility from consuming a good is understood by economists to mean:
   a) how often we consume the good.
   b) how much satisfaction or benefit we get from consuming the good.
   c) how much it costs to buy the good.
   d) how we best use the good.

17. In a perfectly competitive market, a short-run equilibrium cannot continue in the long run if:
    a) the firms are earning zero economic profits.
    b) the firms are earning normal profits.
    c) the firms are making economic losses.
    d) the firms are operating at minimum AC.

18. Which of the following is a natural barrier to the entry of new firms in an industry?
    a) Licensing.
    b) Economies of scale.
    c) Issuing of a patent.
    d) A public franchise.

19. The banking industry in Eswatini can be best classified under which market structure:
    a) Perfectly competitive industry.
    b) Monopoly industry.
    c) Monopolistically competitive industry.
    d) Oligopoly industry.

20. Oligopoly is characterised by:
    a) a single seller and only a few buyers.
    b) a lack of incentives to collude.
    c) easy entry into and exit out of the market.
    d) a small number of large firms.

SECTION B (CHOOSE ONE QUESTION IN THIS SECTION AND ANSWER IT ON A SEPARATE BOOKLET)

QUESTION 2 **[35 Marks]**

a) Sketch a production possibilities frontier depicting increasing opportunity. Why is this curve considered realistic? Explain [6 Marks]

b) Describe any four disadvantages of the command economic system. [4 Marks]

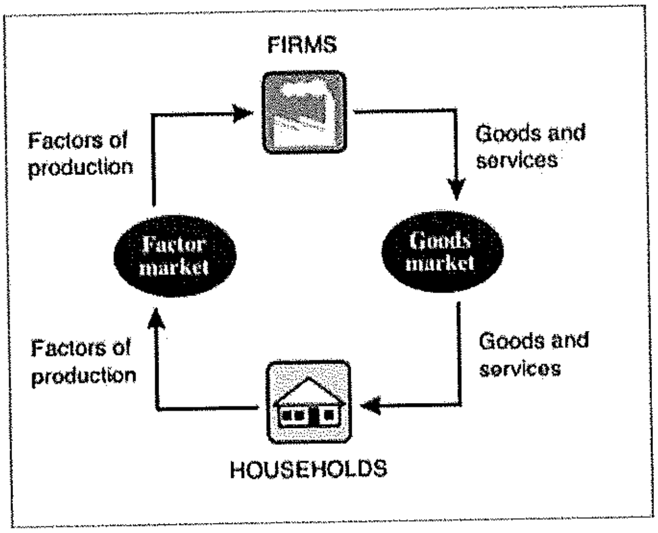
c) State the formula for cross elasticity of demand and income elasticity of demand. [3 Marks]

d) Suppose that the price of product B falls from E3000 to E2500 and as a result the demand for product A increases from 200,000 to 230,000. Calculate the cross elasticity of demand for product A. What can we conclude about the two goods based on the solution you found? [7 Marks]

e) List five determinants of demand. [5 marks]

f) Aggregate expenditure on Eswatini goods and services consists of spending by four sectors. Name these sectors. [5 Marks]

g) Explain the figure below. [5 Marks]



OR

QUESTION 3 **[35 Marks]**

a) Indicate the effect on demand and the demand curve following the changes shown below (assuming a normal $Good\ X$). It will be easy to use a table to answer this question. [10 marks]

i. Increase and decrease in price of $Good\ X$.

ii. Increase and decrease in income of the consumer

iii. Increase and decrease in prices of substitute goods

iv. Increase and decrease in population

v. Increase and decrease in consumer's desire to buy

b) List the five categories of price elasticity of demand. [5 Marks]

c) Indicate the effect on total revenue when price changes for each of the categories stated in part (b) above. [5 Marks]

d) Outline the two features used to discern between economic systems. [5 Marks]

e) Using the demand and supply curves, analyse the effect of an increase in a consumer's income. Be sure to label your graph appropriately. [10 Marks]

SECTION C (CHOOSE ONE QUESTION IN THIS SECTION AND ANSWER IT ON A SEPARATE BOOKLET)

QUESTION 4 **[35 Marks]**

a) State and discuss three assumptions of indifference curve analysis [9 marks]

b) With the use of a graph, present and explain the equilibrium condition for an individual consumer who spends all their income (I) on two goods $(X \text{ } and \text{ } Y)$ whose prices are P_X and P_Y respectively. (Clearly label each Axis) [10 marks]

c) Distinguish between a Price Consumption Curve (PCC) and an Income Consumption Curve (ICC). [6 Marks]

d) Graphically illustrate and explain the substitution and income effects of a price **increase** for a normal good. [10 Marks]

OR

QUESTION 5 **[35 Marks]**

a) List and discuss four (4) characteristics of a perfectly competitive market structure. [10 Marks]

b) Graphically illustrate and explain a competitive firm that is making positive economic profits in the short run. (Clearly label each Axis and curves) [12 Marks]

c) Explain the concept of collusion in an oligopoly market structure. [7 Marks]

d) Briefly explain how advertising and product diversification can be used as a barrier to entry in Oligopoly market. [6 Marks]