

# UNIVERSITY OF ESWATINI

FIRST SEMESTER RESIT EXAMINATION PAPER, SEPTEMBER 2021

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO101

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

TIME ALLOWED: 2 HOURS

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## 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)**

**[1.5 Marks Each]**

**[Total = 30 Marks]**

1. The broader the definition of a product the larger the price elasticity of demand tends to be.
  - a) True
  - b) False
  
2. Producer surplus is the area below the supply curve.
  - a) True
  - b) False
  
3. Consumer surplus is the area below the demand curve and below the prevailing price.
  - a) True
  - b) False
  
4. A market economic system is also called a capitalist economic system.
  - a) True
  - b) False
  
5. A production possibilities curve concave to the origin depicts increasing opportunity cost.
  - a) True
  - b) False
  
6. A price elasticity of demand equal to 1 is categorised as perfectly inelastic.
  - a) True
  - b) False
  
7. When the price elasticity of demand is zero then demand is elastic.
  - a) True
  - b) False
  
8. When the price elasticity of demand equals 1 then quantity demanded does not change as price for the good changes.
  - a) True
  - b) False
  
9. When the state of technology improves supply of goods is likely to remain constant.
  - a) True
  - b) False

10. Subsidies on particular goods or services tend to reduce their supply.

- a) True
- b) False

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

Good X (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 Good X are produced is:

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

12. Marginal cost is the amount that:

- a) total cost increases when one more labourer is hired.
- b) fixed cost increases when one more labourer is hired.
- c) variable cost increases when one more labourer is hired.
- d) total cost increases when one more unit of output is produced.

13. A budget line illustrates:

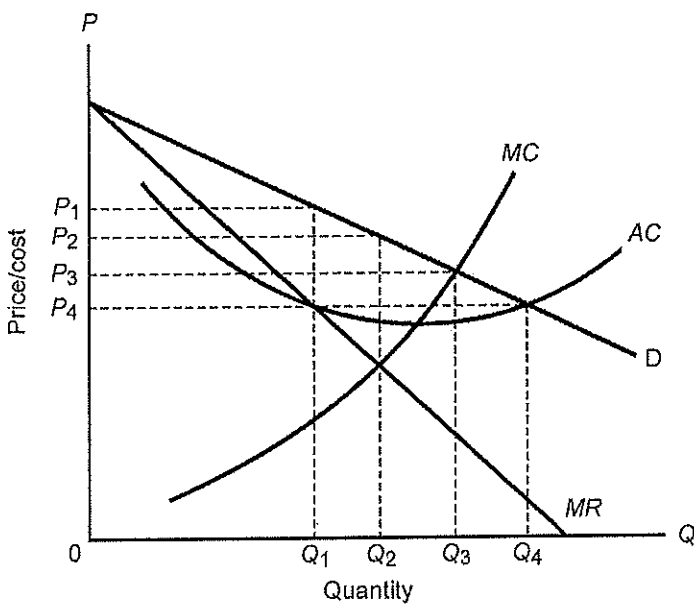
- a) the prices of two goods.
- b) the affordable combinations of two goods.
- c) the cardinal utility of two goods.
- d) the law of the diminishing marginal rate of substitution.

14. An indifference curve:
- a) indicates how many units of satisfaction the consumption of different quantities of a good provides to the consumer.
  - b) indicates the different combinations of two products that will provide the consumer with equal levels of satisfaction.
  - c) indicates the different combinations of two goods that a consumer can afford to buy.
  - d) indicates the different quantities of a good that will be demanded at different prices.
15. As more and more units of a good are consumed by a consumer, the total utility gained from that good, will:
- a) diminish.
  - b) rise, but by successively smaller amounts.
  - c) rise steeply.
  - d) remain unchanged.
16. Product differentiation occurs when:
- a) a completely new process is used to produce a familiar product.
  - b) different prices are charged for the same good in different markets.
  - c) buyers perceive differences in the products of several companies.
  - d) a firm produces many different goods.
17. Which one of the following is NOT a requirement for or characteristic of perfect competition?
- a) The good must be homogeneous (standardised).
  - b) All market participants should have perfect knowledge of market conditions.
  - c) Every firm must have the power to set its own price.
  - d) There must be a large number of sellers.
18. Under monopolistic competition, long-run economic profits tend toward zero because of:
- a) product differentiation.
  - b) the market being shared between a greater number of firms.
  - c) excess capacity.
  - d) the downward sloping demand curve facing each firm.

19. Which one of the following types of firms does **not** face a downward-sloping demand curve?

- a) A perfectly competitive firm.
- b) A monopolistic firm.
- c) An oligopolistic firm.
- d) A monopolistically competitive firm.

20.



The figure above represents Monopolistically Competitive firm in the short run. Find the profit maximizing price and the corresponding output level.

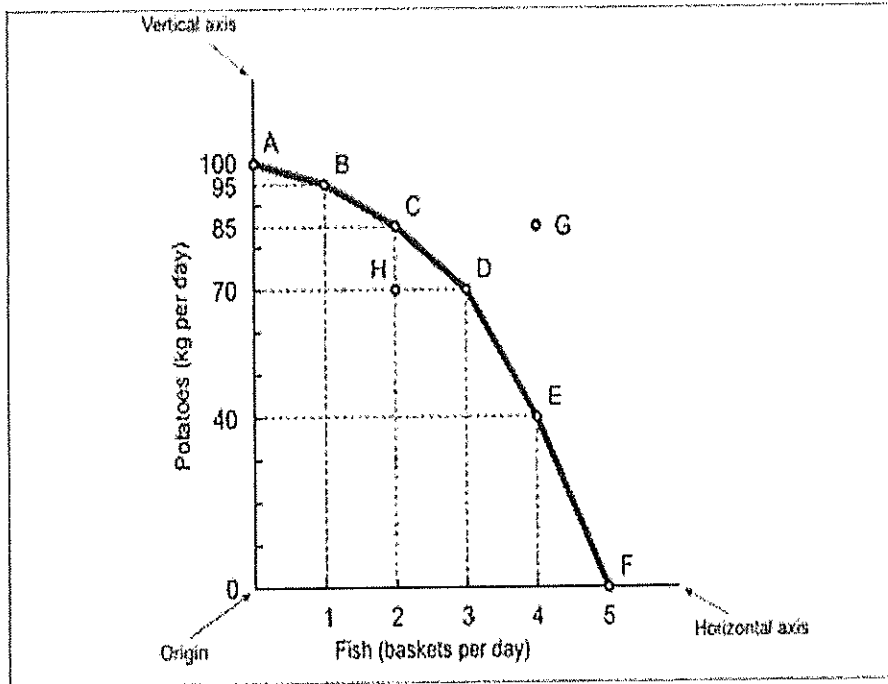
- a)  $P_4$  and  $Q_1$
- b)  $P_2$  and  $Q_2$
- c)  $P_3$  and  $Q_3$
- d)  $P_4$  and  $Q_1$

**SECTION B (CHOOSE ONE QUESTION IN THIS SECTION)**

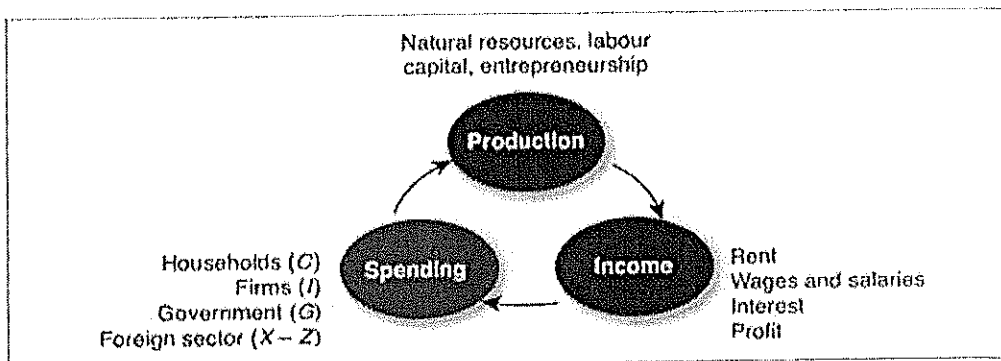
**QUESTION 2**

[35 Marks]

- a) Look at the figure below and explain what is happening regarding trade-offs and opportunity cost as the economy moves from points A to F. [5 marks]



- b) Define consumer surplus and producer surplus. Show the two in the same diagram. [10 Marks]
- c) Stating the relevant formula for each, define income elasticity of demand, cross price elasticity of demand and income elasticity of demand. [10 Marks]
- d) Discern between durable and no-durable goods. Use examples. [5 Marks]
- e) Explain the figure below. [5 Marks]



OR

**QUESTION 3**

**[35 Marks]**

- a) Sketch demand curves depicting the five different categories of price elasticity of demand. Be sure to label each axis correctly and indicate the size of the elasticity for each case. [10 marks]
- b) Briefly outline five determinants of price elasticity of supply. [10 marks]
- c) Using a graph, illustrate and explain how a change in supply affects the equilibrium price and quantity in a market. [10 marks]
- d) List the advantages of a market economic system. [5 marks]

**SECTION C (CHOOSE ONE QUESTION IN THIS SECTION)**

**QUESTION 4**

**[35 Marks]**

- a) For the following firm data presented in the table below, where the fixed costs are £8, add rows where you show the following costs: Average Costs (AC), Variable Costs (VC), Average Fixed Costs, and Marginal Costs (MC) [10 Marks]

Quantity	1	2	3	4	5	6
Total Cost (£)	10	16	18	28	45	66

- b) Graphically illustrate and explain the substitution and income effects of a price decrease for a normal good. [10 Marks]
- c) What does the Law of Diminishing Returns state? [5 Marks]
- d) There is an inverse relationship between productivity and costs. Using a graph, show and explain that this is true. [10 Marks]

OR

**QUESTION 5**

**[35 Marks]**

- a) List and discuss four (4) characteristics of a monopoly market structure. [8 Marks]
- b) Differentiate between first-degree and third-degree price discrimination in monopoly. [7 Marks]
- c) Graphically Illustrate and explain a monopoly firm that is making profits in the short run. (Clearly label Axis and curves) [12 Marks]
- d) Governments can come up with policies that regulate monopolies in an economy. Explain three (3) policies that government can use to regulate a monopoly firm. [8 Marks]



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PROGRAMME : \_\_\_\_\_  
COURSE CODE : \_\_\_\_\_  
DATE : \_\_\_\_\_  
VENUE : \_\_\_\_\_

Neatly shade only one option and place in your SECTION B answer booklet

Question	True	False
1.	<input type="radio"/>	<input type="radio"/>
2.	<input type="radio"/>	<input type="radio"/>
3.	<input type="radio"/>	<input type="radio"/>
4.	<input type="radio"/>	<input type="radio"/>
5.	<input type="radio"/>	<input type="radio"/>
6.	<input type="radio"/>	<input type="radio"/>
7.	<input type="radio"/>	<input type="radio"/>
8.	<input type="radio"/>	<input type="radio"/>
9.	<input type="radio"/>	<input type="radio"/>
10.	<input type="radio"/>	<input type="radio"/>

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DATE : \_\_\_\_\_  
VENUE : \_\_\_\_\_

Neatly shade only one option and place in your SECTION C answer booklet

Question	a	b	c	d
11.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
15.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
16.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
17.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
18.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>