



**1st SEM. 2004/2005**

**PAGE 1 OF 3**

**UNIVERSITY OF SWAZILAND**

**FINAL EXAMINATION PAPER**

**PROGRAMME: BACHELOR OF SCIENCE IN AGRICULTURAL  
ECONOMICS YEAR V**

**COURSE CODE: AEM 502**

**TITLE OF PAPER: MICROECONOMICS**

**TIME ALLOWED: TWO (2) HOURS**

**INSTRUCTION: ANSWER ALL FOUR (4) QUESTIONS**

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GRANTED BY THE CHIEF INVIGILATOR**

### Question 1

- (a) Briefly explain the main factors that influence the elasticity of demand and supply.  
**10 MARKS**
- (b) With aid of a simple example and diagram differentiate with reference to a perfect competitor the various types of returns to scale.  
**9 MARKS**
- (c) It is generally accepted that although markets perform a good job of sending resources to where they are highly valued, they do not always get the correct answer. Explain the most significant obstacles to achieving an efficient allocation of resources in the market economy.  
**15 MARKS**
- (d) Briefly explain the concepts of marginal benefit and marginal cost with reference to efficient resource use.  
**6 MARKS**

### Question 2

- (a) You have observed over a period of one year that Ms Gray mainly consumes two goods X and Y that are complements and that Ms Red mainly consumes two goods Z and W that are substitutes. Using appropriate diagrams explain the effects of a price decrease in prices of Y and W, and the introduction of a new cost saving technology in the production of goods X and Z.  
**10 MARKS**

- (b) Explain with the aid of relevant diagrams what is expected to happen to output, price and economic profit when there is a permanent decrease in demand in a competitive industry.  
**10 MARKS**

- (c) Mr Dlamini enjoys consuming Goods A and B. The table below shows the utility Mr Dlamini gets from each of the two goods:

Kilos of Good A or Good B	Utility from Good A	Utility from Good B
100	100	60
200	180	110
300	240	150
400	280	180
500	300	200
600	310	210

Mr Dlamini has E1000 a week to spend on the consumption of the two goods. If Good A costs E20, and good B costs E10:

- (i) Draw a graph that depicts Mr Dlamini's budget line. **2 MARKS**
- (ii) How many kilos of each of the two goods does Mr Dlamini buy?  
**4 MARKS**
- (iii) If the price of Good A decreases to E10, how many kilos of A and B will Mr Dlamini now buy?  
**4 MARKS**

137

### Question 3

- (a) Briefly explain the types of constraints that may limit the profit that can be made by a firm. **9 MARKS**
- (b) Explain to a non-economist the key distinction between economic and technological efficiency. **8 MARKS**
- (c) State the principle-agent problem and briefly explain some of the ways of coping with it. **5 MARKS**
- (d) Explain the main characteristics of the three main types of business organizations. **8 MARKS**

### Question 4

- (a) Explain the distinguishing characteristics of monopolistic competition, and how firms compete in this type of market. **12 MARKS**
- (b) What are the distinguishing characteristics of a monopolist? How is the monopolist able to practice price discrimination? **10 MARKS**
- (c) How can speculation stabilize price of a commodity? **4 MARKS**
- (d) Describe the course of events in a competitive industry that follows the adoption of a new technology. **4 MARKS**