



2nd SEM. 2016/2017

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UNIVERSITY OF SWAZILAND

MAIN EXAMINATION PAPER

PROGRAMMES:

- BSc. in Agricultural Economics and Agribusiness Management Year 1
- BSc. in Agronomy Year 1
- BSc. in Animal Science Year 1
- BSc in Animal Science (Dairy) Year 1
- BSc. in Food Science, Nutrition and Technology Year 1
- BSc in Consumer Sciences 1
- BSc in Consumer Sciences Education 1
- BSc. in Home Economics Year 1
- BSc. in Horticulture Year 1
- BSc. in Agricultural Biosystems and Engineering Year 1
- BSc. in Textiles Apparel Design and Management Year 1

COURSE CODE: AEM 102

TITLE OF PAPER: PRINCIPLES OF ECONOMICS

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. ANSWER ALL FOUR (4) QUESTIONS.
2. USE EXAMPLES TO ILLUSTRATE YOUR ANSWERS.
3. FOR THE FILLIN IN THE BLANKS, TRUE OR FALSE, AND MULTIPLE CHOICE QUESTIONS, WRITE THE NUMBER AND THE ANSWER (e.g. i. ECONOMICS; i. TRUE AND i. A) ONLY.

DO NOT OPEN THIS PAPER UNTIL THE CHIEF INVIGILATOR HAS GRANTED PERMISSION.

Question 1

(a) Fill in the blanks with the most appropriate WORD/S

- i. There are three types of economic systems; planned, _____ and mixed.
- ii. A _____ can be defined as a decision making or managerial unit of production.
- iii. Product _____ makes it difficult to construct the quantity axis for monopolistic markets.
- iv. A _____ may be initiated by one oligopolist who lowers his price for purposes of increasing sales.
- v. Pure monopoly differs from pure competition with respect to _____ and not with respect to costs of production.
- vi. An Oligopolist may _____ or act independently to reduce oligopolistic _____.
- vii. Under Pure competition, marginal revenue is equal to _____.
- viii. Monopolists have an influence on the price and _____ but not the market _____.
- ix. Under pure competition, if the price is lower than _____, the firm will incur a loss.
- x. Costs of production for the self-owned, self-employed resources are called _____ costs.
- xi. If demand is _____, a small increase in price leads to a large _____ in quantity demanded; which reduces total _____.
- xii. _____ is the point where the budget line is just tangent to the indifference curve.
- xiii. At prices higher than the _____ price, quantity supplied is greater than quantity demanded and this is termed a _____ market.
- xiv. The _____ run is a planning period where all inputs are variable.
- xv. The difference between pure and perfect competition is complete _____.

(20 marks)

(b) Plot a graph which depicts the demand for salt.

(5 marks)

Question 2

(a) In what type of market is a firm able to charge different prices for the same product? What is this situation called, and what are the two conditions that favour its existence? (8 marks)

(b) Consider the following straight line demand and supply curves

$$Q_d = p + 50; Q_s = 100 - 4p$$

Where: Q_d = quantity demanded; P = price; Q_s = quantity supplied

- i) For values of $P = 5, 10$ and 15 , calculate the quantities demanded and supplied. (6 marks)
- ii) Calculate the equilibrium price and quantity (4 marks)
- iii) With the help of a well labelled diagram, illustrate the situation in (ii) above (7 marks)

Question 3

- a) State whether the statement is True or False (20 marks)
- (i) When marginal cost is increasing, average cost is falling.
 - (ii) When supply decreases, demand remaining the same; price increases while quantity supplied decreases.
 - (iii) Marginal revenue and price are the same for a pure competitor.
 - (iv) Macroeconomics focuses on the activities of households.
 - (v) We need perfect knowledge of the industry to move from a purely competitive market to a perfectly competitive one.
 - (vi) The product is differentiated in oligopolistic competition.
 - (vii) Additional units of the variable input causes a decline in output in Stage II.
 - (viii) Quantity demanded is infinity at the ruling price under perfectly elastic demand.
 - (ix) Opportunity cost is the best forgone alternative.
 - (x) Marginal cost is equal to total cost divided by price.
 - (xi) Additional units of the variable input causes a decline in output in Stage II of production.

- (xii) There are no variable inputs in the long run.
- (xiii) A market is the number of people who buy a product.
- (xiv) Quantity supplied is infinity at the ruling price under perfectly elastic demand. — — — — —
- (xv) Ceteris paribus means everything changing at the same time.
- (xvi) Fixed input is an input whose quantity cannot be readily changed during production.
- (xvii) If the elasticity of demand is > 1 demand is said to be elastic.
- (xviii) A Change in the price of a product may be traced by a shift in the demand curve of that product.
- (xix) Technology improves productivity and reduces production costs thereby increasing supply.
- (xx) Production function is an equation which maps maximum amount of output that can be produced from a specified set of outputs.

b) Explain the law of diminishing marginal utility

(5 marks)

Question 4

(a) Choose the most appropriate answer.

(10 marks)

- i. Economics is best defined as
 - A. How people make money and profits in the market
 - B. Making choices from an unlimited supply of goods and services
 - C. Making choices with unlimited wants but facing scarcity of resources
 - D. Science of choice and how people cope with differences in wants
- ii. Which of the following may be found in oligopoly but not monopolistic competition?
 - A. Advertising
 - B. Collusion
 - C. Excess capacity
 - D. Product differentiation

- iii. Monopolistic competition is best described as a market structure where:
- A. Firms are price takers
 - B. There are barriers to entry and exit
 - C. The firms produce differentiated goods
 - D. Most of the firms earn supernormal profits in the long run
- iv. What does the existence of scarcity imply?
- A. All goods are economic goods
 - B. Economic agents have to make choices
 - C. It is not possible to increase the quantity of resources
 - D. Productive potential of resources is decreasing
- v. Which of the following does not qualify as a capital good
- A. A fishing area
 - B. A bank loan to a newly established firm
 - C. A photocopying machine in a law firm
 - D. A car used to transport staff
- vi. In choosing an item to serve as a medium of exchange, which of the following is the most important characteristic. It must be
- A. Divisible
 - B. Issued by the state
 - C. Easily recognisable
 - D. Generally acceptable
- vii. Which worker is employed in a tertiary sector?
- A. A miner
 - B. A farmer
 - C. An advertiser
 - D. A fisher
- viii. Government intervention in the economy is good when:
- A. there is a shortage of goods and services
 - B. the product is classified as essential
 - C. producers are not making profits
 - D. all the above occur

- ix. Which of the following is not a definition of money?
- A. Medium of exchange
 - B. Salary
 - C. Standard of deferred payments
 - D. Store of value
- x. Indifference curves...
- A. slope from right to left
 - B. never intercept
 - C. represent marginal utility
 - D. are always drawn in pairs
- (a) Using a well labelled graph, show why production should be confined to stage II of production.
- (15 marks)