



2nd SEM. 2018/2019

UNIVERSITY OF ESWATINI

MAIN EXAMINATION PAPER

COURSE CODE: AEM 102

TITLE OF PAPER: PRINCIPLES OF ECONOMICS

PROGRAMME: BSc. in Agriculture 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

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. ANSWER ALL FOUR (4) QUESTIONS.
2. USE EXAMPLES TO ILLUSTRATE YOUR ANSWERS.

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Question 1

- a) Explain production as it applies in the field of economics. (2 marks)
- b) Explain the three different types/levels of production (9 marks) [1 mark for specifying each category and 2 marks for each explanation]
- c) In market X that supplies bread, there are three consumers Jack, Joe, and Wilson. Jack wants to buy two (2) loaves of bread, he has the money and he is willing to spend his money on bread. Joe can afford five (5) loaves of bread but he is not willing to spend his money on bread. Wilson want three (3) loaves and he is willing to spend his money on bread but he can only afford two (2) loaves of bread.
- What is Joe's demand for bread? (2 marks)
 - What is Wilson's demand for bread? (2 marks)
 - What is the market effective demand for bread? (3 marks)
- d) List any three factors that can cause a change in demand for bread in Market X (factors that can shift the demand curve for bread)? (3 marks)
- e) The price of commodity Y increases from E10 per unit to E20 per unit. Demand for the same commodity (Y) decreases from 60 units to 40 Units. Calculate the arch price elasticity of demand for commodity Y. (5 marks)
- f) Apply the decision rules to interpret the elasticity value obtain in (e) above. (1 mark)

Question 2

- a) What are the three features observed when studying consumer behaviour? (6 marks)
- b) Analysis of the Law of diminishing returns utilises the concept of indifference curve. Briefly explain the three properties of indifference curve. (6 marks)
- c) Sophie has E100, which she plans to spend on ice cream and/or fat-cakes. The price of ice cream is E10 per cup whilst a fat-cake sells at E5 each. Using a well-labelled diagram, present Sophie's budget line (8 marks) [4 marks for correctly labelling graph axis, 4 marks for correct calculation and labelling of budget line]
- d) Explain the Law of diminishing returns as it applies in production. (5 marks)

Question 3

State which of the statements are True or False. (25 marks)

- When marginal cost is increasing, average cost is falling.
- 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 unit 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 greater than 1 demand is said to be inelastic.
- (xviii) If demand is elastic, a small increase in price leads to a large decrease in quantity demanded.
- (xix) An increase in price of good X result in an increase in the demand of good Y, therefore goods X and Y are complements.
- (xx) Changes in price of a product maybe be traced by shift in the demand curve of that product.
- (xxi) Technology improves productivity and reduces production costs thereby increasing supply.
- (xxii) Production function is an equation which maps maximum amount of output that can be produced from a specified set of inputs.
- (xxiii) In an event there is an increase in the consumer' income (*ceteris paribus*), his budget line will shift upwards.
- (xxiv) Implicit cost are never overlooked.

Question 4

(a) Choose the most appropriate answer.

(10 marks)

- i. Economics is best defined as
 - a) Choosing the best employer
 - b) Buying goods and services in the market
 - c) Making choices with unlimited wants but facing scarcity of resources
 - d) None of the above
- ii. Which of the following may be found in oligopoly but not monopolistic competition?
 - a) Large number of firms
 - b) Collusion
 - c) Excess capacity
 - d) Sellers seek to increase market share through advertising
- iii. Monopolistic competition is best described as a market structure where:
 - a) The firms produces identical goods
 - b) There are no or very low barriers to entry
 - c) The firms produce differentiated goods
 - d) Both b) and c)
- iv. What does the existence of scarcity imply?
 - a) Resource are unlimited
 - b) Resources are not for sale
 - c) It is not possible to increase the quantity of resources
 - d) None of the above
- v. Which of the following does not qualify as a capital good
 - a) A car used to transport staff
 - b) A machine used to produce goods in a factory
 - c) A computer used by an Accountant at her workplace.
 - d) All of the above
- 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) Generally acceptable

- b) Durable
 - c) Potable
 - d) Made out of gold
- vii. Which worker is employed in a tertiary sector
- a) Cane Cutter
 - b) An advertiser
 - c) Brick layer
 - d) Software Developer
- viii. Increase in income will
- a) Shift supply to the left
 - b) Shift demand to the left
 - c) Shift demand to the right
 - d) Demand and supply will remain unchanged
- ix. Budget line...
- a) Only relay info about preferences of two goods
 - b) They tell us what combinations will be chosen
 - c) Present the maximum utility that one can get from consuming any combination of two goods
 - d) None of the above
- x. Pure competition market is characterised by
- a) Homogeneous product
 - b) A large number of buyers and sellers
 - c) Complete information
 - d) All of the above
- b) James can only buy 10 units of good X, regardless of the price whilst Mr Simelane can sell any amount of good Z at a E15.
- i. Using well labelled graphs, represent James elastic of demand. (5 marks)
 - ii. Using a well labelled graph, represent elasticity of demand for the good produced by Mr Smith. (5 marks)
 - iii. Zethu has E200 to spend on Good X and Y. The price of good X is E10 while the price of Good Y is E20. The graph show below show Zethu's budget line give her income of

E200 and above mentioned prices. Show how Zethu's budget line would look like if the price of Good Y was to increase to E50. (5 marks)

