

**UNIVERSITY OF SWAZILAND**

**DEPARTMENT OF ECONOMICS**

**FINAL EXAMINATION 2006**

**TITLE OF PAPER: INTERMEDIATE ECONOMICS**

**COURSE CODE: ECON 301**

**INSTRUCTIONS: ANSWER FOUR (4) QUESTIONS:  
TWO QUESTIONS IN SECTION A AND TWO  
QUESTIONS IN SECTION B**

**TIME ALLOWED: THREE(3) HOURS**

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS  
BEEN GRANTED BY THE INVIGILATOR**

## SECTION A

### Question 1

Suppose Mr and Mrs Vilane were the only two people making up Swazi Society and if they had only two factors of production at their disposal namely labour and capital in the production of the only two goods namely food and clothing. Use appropriate diagrams to illustrate:

- i) Efficiency in exchange and production sectors of this economy.  
[ 19 marks]
- ii) The concepts of Utility Possibility Curve (UPC) and Production Possibility Curve (PPC).  
[ 6 marks]

### Question 2

a) Given the following demand function, use reaction functions to find the Cournot Duopoly Equilibrium. Indicate the optimum values of  $X_1$  and  $X_2$  and the profits earned in this industry. Illustrate your answer with a diagram.

$$P_x = 100 - 0.5(X_1 + X_2)$$

$$C_1 = 5X_1$$

$$C_2 = 0.5 X_2^2$$

[ 15 marks]

b) Compare the above result to that which would have obtained if the industry comprised a multi-plant monopolist.

[ 10 marks]

### Question 3

The market demand curve for a multi plant monopolist is

$$Q = 600 - 4P$$

If the Monopolist operates two plants with functions

$$C_1 = 5Q_1 + 6 \quad \text{and} \quad C_2 = 0.5 Q_2^2$$

Find the profit maximizing level from each plant and the maximum level of profit.

[ 12 marks]

(b) Using Indifference Curve analysis, explain the Leisure-Income trade off and the need for employers to offer overtime rates which are higher than the normal wage rate

[ 13 marks]

**Question 4**

Given the following demand functions for segmented markets:

$$Q_1 = 32 - 0.4 P_1$$

$$Q_2 = 18 - 0.1 P_2$$

And a cost function  $C = 50 + 40Q$

Where  $Q = Q_1 + Q_2$

Determine whether the Monopolist is better off practicing price discrimination or behaving as a non discriminating Monopolist.

[25 marks]

## SECTION B

### Question 5

Write explanatory notes on each of the following:

- a) Rational expectations
- b) Unit Multiplier Theory
- c) Implicit Price Deflator (IPD) VS Producer Price Index (PPI)
- d) Demand side inflation
- e) Cyclical unemployment and Structural unemployment  
[ 5 marks each]

### Question 6

Compare and contrast the effects of an expansionary Fiscal policy and an expansionary Monetary policy on national income and employment.

[ 25 marks]

### Question 7

With the aid of diagrams, explain the conditions under which each one of these may arise:

- a) Crowding out [ 9 marks]
- b) Liquidity Trap [ 9 marks]

Explain how each one of these conditions can be prevented

[7 marks]

### Question 8

- a) With the aid of diagrams, explain the concept of a natural unemployment rate  
[ 6 marks]

b) Explain the macroeconomic aggregates described by the Phillips curve. Demonstrate how shifts in the aggregate demand (AD) curve that are not accompanied by shifts in the aggregate supply (AS) curve affect the nature of relationships described by the Phillips curve.

[ 12 marks]

- c) How would a leftward shift in an upward sloping AS curve impact on inflation and unemployment if the AD function does not shift?

[ 7 marks]