UNIVERSITY OF SWAZILAND

FACULTY OF SOCIAL SCIENCE

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY EXAMINATION

JULY 2015

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

COURSE CODE: ECON 102

TIME ALLOWED: TWO (2) HOURS

INSTRUCTION: ANSWER ANY **FOUR** QUESTIONS.

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Question 1

a) Discuss how a mixed economic system differs from a planned economic system. (5marks)

b) Why is it desirable to have the state play a role in an economy? Explain. (10 marks)

c) Use a graph to explain the equilibrium position for a firm operating under perfect competition in the long run. (10marks)

Question 2

a) Discuss in detail the main assumptions made under perfect competition and under monopoly. (10 marks)

b) Use a graph as well as equations to characterise the equilibrium position for a consumer who is maximising utility subject to a budget constraint. (15 marks)

Question 3

a) Discuss the relationship between the total product curve and the marginal product curve. Sketch these curves on one graph. (10 marks)

b) Sketch a long run average cost curve and show and explain the ranges for increasing, decreasing and constant returns to scale. (10 marks)

c) Distinguish between an isoquant and an indifference curve. (5 marks)

Question 4

a) Sketch a marginal cost curve and average fixed costs (short run costs) and explain the economic meaning of their shapes. (10 marks)

b) Use a graph to explain the income and substitution effects of a price increase for a normal good. (15 marks)

Question 5

a) Define each of the following: (2 marks each)

I. Giffen good and an inferior good.

II. Capital good and an intermediate good.

III. Marginal rate of substitution and the marginal rate of technical substitution.

IV. The kinked demand curve for an Oligopolistic firm.
V. Producer surplus.
VI. Marginal product of labour.
VII. Law of diminishing marginal utility.
VIII. Merit and demerit goods.
IX. Unitary price elasticity of demand.
X. Constant opportunity cost.

b) Use a graph to explain the concept of increasing opportunity cost. (5 marks)