UNIVERSITY OF ESWATINI

FIRST SEMESTER RESIT EXAMINATION PAPER, JANUARY 2020

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO101

TITLE OF PAPER: PRINCIPLES OF MICROECONOMICS

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Sections (A), (B) and (C).
2. Section A is compulsory. Neatly shade the correct answer on the multiple choice sheet provided.
3. Answer one question from Section B, and one question from Section C

Special Requirements

Scientific calculator

Additional Material (s)

1. Multiple Choice Sheet for Section A

Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must NOT write anything else until the start of the examination period is announced.

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

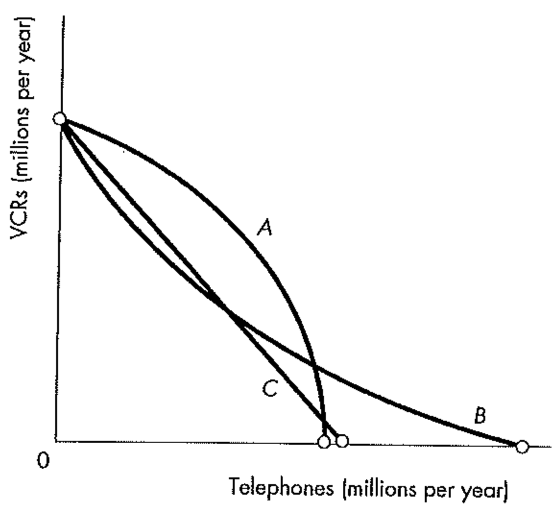
DO NOT turn examination paper over until instructed to do so.

SECTION A (COMPULSORY) **[2 Marks Each]** **[Total = 60 Marks]**

1. A production possibilities frontier does NOT illustrate
   a) the limits on production imposed by our limited resources and technology.
   b) the exchange of one good or service for another.
   c) opportunity cost.
   d) attainable and unattainable points.

2. On a diagram of a production possibilities frontier, opportunity cost is represented by
   a) a point on the horizontal axis.
   b) a point on the vertical axis.
   c) a ray through the origin.
   d) the slope of the production possibilities frontier, which indicates that to get more of one good requires less of another.

3. In the figure below which of the curves shows a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones?



a) A
b) B
c) C
d) All of the curves illustrate a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones.

4. A key factor that leads to economic growth is
   a) human capital accumulation.
   b) increasing current consumption.
   c) avoiding the opportunity cost of investment.
   d) both answers A and B are correct.

5. An economic system in which the government decides what goods are produced, how they are produced, and for whom they are produced is known as a
   a) traditional economy
   b) anarchist economy
   c) market economy
   d) command economy

6. Entrepreneurs are considered a factor of production because they
   a) own the land on which a factory or office is located
   b) create new companies and foster business innovation
   c) provide financial capital by investing in various stocks
   d) produce goods and services as wage labourers

7. The Eswatini economy is best described as a
   a) barter economy
   b) market economy
   c) traditional economy
   d) mixed economy

8. The law of demand states that
   a) consumers have unlimited demands for a good.
   b) a higher price will lead to increased sales.
   c) the price can never be too high for some consumers.
   d) quantity demanded will vary inversely with the price of the good.

9. If more buyers came into the market for a good, we would expect to see the market demand curve
   a) shift inward and to the left.
   b) remain unchanged since none of the determinants of individual demand changed.
   c) shift outward and to the right.
   d) reflect a positive relationship between price and quantity demanded.

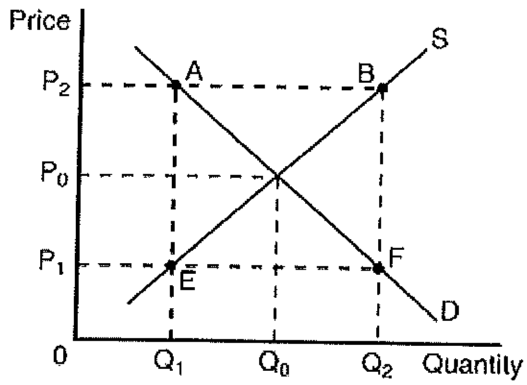
10. If the price of flash memory cards increases, then there will be ________ of flash memory cards.

a) a decrease in the supply
b) an increase in the supply
c) an increase in the quantity supplied
d) a decrease in the quantity supplied

11. In the long run, the number of firms in an industry may change. If the number of firms increases, then

a) the supply curve will shift outward to the right.
b) the demand curve will shift outward to the right.
c) the supply curve will shift inward to the left.
d) the demand curve will shift inward to the left.

12. Refer to the following figure:



If the market price falls from P_0 to P_1, then

a) a new equilibrium quantity is established.
b) there is a shortage equal to the distance EF.
c) there will be a further tendency for price to fall.
d) there is a surplus of goods on the market equal to the distance Q_1Q_2.

13. When marginal utility is positive

a) total utility will increase
b) total utility is zero
c) total utility will be maximum
d) all the above.

14. If the marginal rate of substitution (MRS) declines, then the indifference curve is
   a) concave to the origin
   b) straight line cutting both the axes
   c) convex to the origin
   d) none of the above.

15. The slope of the budget line is measured by
   a) $MRSxy$
   b) ratio of MUx/MUy
   c) ratio of the prices of the 2 goods
   d) all the above.

16. The indifference curve approach to demand curves requires that
   a) a consumer be able to put precise utility values on different sets of goods
   b) we make interpersonal comparisons of utility
   c) a consumer have a sufficiently large budget to buy many different items
   d) a consumer be able to rank utilities of different goods

17. The marginal rate of substitution is the rate at which a consumer
   a) measures utils for additional units of consumption
   b) will give up units of one good for units of another good while holding utility constant
   c) runs up against the monthly budget constraint
   d) finds substitute goods for goods whose prices are increasing

18. A consumer's budget constraint is formed by
   a) subtracting the cost of various budget items from the consumer's income
   b) setting the consumer's income equal to the sum of the price times the quantity for all goods consumed
   c) adding up the prices of all the items in the household budget
   d) dividing income by the price of the most expensive good consumed

19. Which of the following is NOT an assumption that we make about consumer preferences?
   a) Transitivity.
   b) Downward-sloping.
   c) Non-satiation.
   d) Completeness.

20. How is marginal utility defined?
   a) The utility gained from consuming the first unit of a given good.
   b) The derivative of utility with respect to the number of goods consumed.
   c) The total utility gained from consuming a bundle of goods.
   d) The utility gained from consuming only one good.

21. Use the following data to answer the following question:

Quantity produced	1	2	3	4	5
Fixed costs	100	100	100	100	100
Variable costs	200	300	350	700	1 400

What is the average cost of producing 4 units?
   a) 100
   b) 25
   c) 175
   d) 200

22. Marginal cost is the amount that:
   a) total cost increases when one more labourer is hired.
   b) variable cost increases when one more labourer is hired.
   c) total cost increases when one more unit of output is produced.
   d) fixed cost increases when one more unit of output is produced.

23.

Cocaine (total product) (units)	Total Variable Cost (TVC) (Emalangeni)
1	200
2	360
3	500
4	700
5	1 000
6	1 800

The marginal cost of the sixth unit of cocaine is:
   a) E200

b) E300
c) E700
d) E800

24. If the price elasticity of demand for good A is 1, then a 1% increase in
    a) consumer income will result in a 1% decrease in the demand for good A.
    b) consumer income will result in a 1% increase in the demand for good A.
    c) the market price of good A will result in a 1% increase in the quantity demanded of good A.
    d) the market price of good A will result in a 1% decrease in the quantity demanded of good A.

25. If price decreases by 10 percent and quantity demanded increases by 30 percent, the price elasticity of demand will be
    a) 0.333
    b) 3
    c) 30
    d) 300

26. Supply will become more elastic when
    a) a time period lengthens.
    b) the time period shortens.
    c) the good is important to consumers.
    d) there are good substitutes for the goods.

27. A market situation in which a large number of firms produce similar but not identical products is
    a) a collusive market structure.
    b) competitive monopoly.
    c) a homogeneous market.
    d) monopolistic competition.

28. A firm in a monopolistically competitive market determines the profit-maximizing output at which
    a) $MR = P$
    b) $MR = ATC$
    c) $MR = AVC$
    d) $MR = MC$

29. In the long run, both monopolistically competitive and perfectly competitive firms attain
    a) lowest cost production.
    b) positive economic profits.
    c) zero economic profits.
    d) productive efficiency.

30. An oligopoly is a market situation in which
    a) there are many firms producing differentiated products.
    b) there is a single firm producing several varieties of a product.
    c) all the sellers act independently of the others.
    d) there are very few sellers and they recognize their strategic dependence on one another.

SECTION B (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 2 **[20 Marks]**

a) State the "law of supply". [3 Marks]

b) Differentiate between perfectly elastic and perfectly inelastic supply. [4 Marks]

c) Use the table showing the cost structure of a Pizza restaurant to answer the following questions:

Quantity	Total Cost	Variable Costs
0	300	0
1	350	50
2	390	90
3	420	120
4	450	150
5	490	190
6	540	240

i. What is the fixed cost of the restaurant? [2 Marks]

ii. Add a marginal cost column on the table on the table above. [4 Marks]

iii. Sketch the marginal cost, average variable cost, and average total cost curves for the restaurant. [7 Marks]

OR

QUESTION 3 **[20 Marks]**

a) How is monopolistic competition similar to monopoly, and how is it similar to perfect competition? [7 Marks]

b) Explain the main characteristics of an oligopoly market structure? [6 Marks]

c) How can advertising and product diversification be used as barrier to entry into an oligopoly market. [7 Marks]

SECTION C (CHOOSE ONE QUESTION IN THIS SECTION)

QUESTION 4 **[20 Marks]**

a) Why do indifference curves show a declining marginal rate of substitution? [5 marks]

b) Why are total utility levels for indifference curves that lie farther from the origin higher than total utility levels for indifference curves close to the origin? [5 marks]

c) Describe the charecterstics of perfect competition [10 marks]

OR

QUESTION 5 **[20 Marks]**

a) What factors may give rise to a monopoly? [5 marks]

b) Using a suitable diagram describe the short-run equilibrium for a typical firm in a perfectly competitive industry. [15 marks]