

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING

PRINCIPLES OF MICRO ECONOMICS

CBA 1104

FINAL EXAMINATION

JANUARY 2004

INSTRUCTIONS TO CANDIDATES

- (i) Time : 3 hours.
(ii) Answer **Question 1** and **any Three**

QUESTION 1 (COMPULSORY)

Use the indifference curve analysis to :

- (a) Distinguish the following commodity categories:
- | | | |
|-------|----------------|-----|
| (i) | Normal goods | [5] |
| (ii) | Inferior goods | [5] |
| (iii) | Giffen goods | [5] |
- (b) Compare the efficiency and welfare impact of an income tax and a sales tax imposed on a consumer.
- | | | |
|--|--------------|-------------|
| | | [10] |
| | TOTAL | [25] |

QUESTION 2

Under market structures, discuss the difference between perfect competition and monopolistic competition and compare the results of these systems both in the short run and the long run.

[25]

QUESTION 3

- (a) Briefly explain the following terms:
- | | | |
|-------|-------------------------------|-----|
| (i) | Falacy of composition | [3] |
| (ii) | Production possibility curve | [3] |
| (iii) | Marginal rate of substitution | [3] |

QUESTION 3 [CONT...]

- (iv) Marginal rate of product [3]
- (v) Law of demand [3]
- (vi) Increase in demand [3]
- (vii) Normative Vs Positive statements. [3]

- (b) A consumer is spending an entire weekly income on goods A and B. The consumer spends his income such that the last dollar spent on A yields a marginal utility of 10 and the last dollar spend on B yields a marginal utility of 20. Advise the consumer on how he can be in equilibrium and fully explain your answer. [4]

TOTAL [25]

QUESTION 4

Given below is production cost data for B Ltd.

Number of Workers	Total Product	Fixed Cost
0	0	200
1	5	200
2	12	200
3	20	200
4	30	200
5	38	200
6	44	200
7	48	200
8	48	200
9	45	200
10	40	200

- (a) Calculate and present in column form the firm's
- (i) Marginal product [4]
 - (ii) Average product [4]
- (b) Assuming for the above levels of production each worker is paid a wage rate of \$50,00, Calculate the firm's

- (i) Total cost of production [4]
- (ii) Marginal cost [4]
- (iii) Average cost [4]

- (c) Diagrammatically, illustrate the relationship between the firm's marginal and average products and its marginal and average costs. Comment on the same.

TOTAL [25]

QUESTION 5

- (a) What determines a firm's demand for a factor of production? [10]
- (b) With reference to the factor labour, is demand alone sufficient to determine labour's wages? [15]
- TOTAL** [25]

END OF EXAMINATION PAPER