

**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**

**SUPPLEMENTARY EXAMINATION**

**AUGUST 2004**

**INSTRUCTIONS TO CANDIDATES**

- (i) Time : 3 hours.
- (ii) Answer **ALL** Questions.

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**QUESTION 1**

Assume the following demand ( $Q^d$ ) and supply ( $Q^s$ ):

$$Q^d = 100 - 2p$$

$$Q^s = 3p$$

- (i) Plot the demand and supply curves. [ 4]
- (ii) Calculate the equilibrium price and quantity. [ 4]
- (iii) If 60 more units are bought at each and every price, what will be the new equation for  $Q^d$ ? [ 4]
- (iv) Plot the new demand curve corresponding to the information in (iii) above on a separate diagram. [ 4]
- (v) What are the new equilibrium price and quantity. [ 4]
- (vi) What could lead to the effect described in (iii) above? [ 5]

**QUESTION 2**

- (i) 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 spent on B yields a marginal utility of 20. Advise the consumer on how he can be in equilibrium and fully explain your answer. [10]
- (ii) Use the income and substitution effects to analyse the effects of an increase in the price of good X, assuming that the price of good Y and income are unchanged. [15]

### **QUESTION 3**

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 4**

- (i) What is meant by:
- (a) Opportunity Cost [ 4]
  - (b) Marginal Cost [ 4]
- (ii) When an individual's income rose from \$650 per month to \$700 per month, her consumption of mealie meal went from 10kg to 11kg.
- (a) What is her income elasticity of demand for mealie meal?  
[ 4]
  - (b) State whether for her mealie meal is an inferior or a normal good and give brief reasons.  
[ 4]
- (iii) (a) Define own price elasticity of demand. [ 4]
- (b) What is the relationship between elasticity of demand and total expenditure on a good.  
[ 5]

***END OF EXAMINATION PAPER***