

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

DECEMBER 2004

INSTRUCTIONS TO CANDIDATES

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

QUESTION 1

One of the differences between a monopolistically competitive industry and a perfectly competitive one is that in the former there is product differentiation.

- (a) Explain what is meant by product differentiation. [10]
- (b) Examine what other differences exist between monopolistic competition and perfect competition, and discuss the extent to which monopolistic competition can lead to a mis-allocation of resources compared to perfect competition. [15]
- TOTAL [25]**

QUESTION 2

- (a) Define an inferior good and give an example. [5]
- (b) Define a Giffen good and give an example. [5]
- (c) Explain carefully, for each of the above, the relationship between the price of the good and the quantity purchased by the consumer. [15]
- TOTAL [25]**

QUESTION 3

- (a) Outline how the marginal revenue productivity theory suggests that the level of wages in an industry is determined. [13]
- (b) How realistic do you consider this explanation to be? [12]
- TOTAL [25]**

QUESTION 4

- (a) Explain clearly the law of variable proportions. [13]
- (b) How does the working of this law influence a firm's cost of production? [12]
- TOTAL** [25]

QUESTION 5

- (a) Explain why, with no government regulation, the prices of agricultural products might be very unstable. [10]
- (b) Discuss what measures may be taken to correct instability in agricultural prices. [15]
- TOTAL** [25]

END OF EXAMINATION PAPER