

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF BANKING**

**PRINCIPLES OF MICRO ECONOMICS**

**CBA 1104**

**FINAL EXAMINATION**

**JANUARY 2008**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

**This paper contains SIX (6) questions.**

**Answer any FOUR Questions**

**All Questions carry [25] Marks each**

**Start the answer to each full question on a fresh page.**

**Indicate on your answer booklet whether you are in the conventional or parallel programme.**

**INFORMATION FOR CANDIDATES**

**The number of marks is given in brackets [ ] at the end of each question or part question.**

**The businesses in this question paper are intended to be fictitious.**

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**This paper consists of 4 printed pages**

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**[Turn over]**

### **QUESTION 1**

- a) Explain how the economy works in ensuring that efficiency is maintained in allocating resources in an economy.

[12]

- b) Does this type of economy represent the situation in your country?

[13]

**TOTAL [25 Marks]**

### **QUESTION 2**

The following relations describe the supply and demand of Maputi at the National University of Science and Technology:

Quantity demanded per week =  $65\,000 - 10P$

Quantity supplied per week =  $-35\,000 + 15P$

- a) What is the market-clearing price?

[2]

- b) Calculate the quantity demanded and supplied at equilibrium?

[2]

Calculate the quantity demanded and supplied at prices of \$5 000.00 and \$3 000.00. At each price level comment whether there will be a surplus or shortage of maputi in the market?

[6]

- d) If 1 000 more units of maputi are bought at each and every price, what will be the new equation for quantity demanded?

[3]

- e) What are the new equilibrium price and quantity?

[4]

- f) What could lead to the effect described in (d) above?

[8]

**TOTAL [25 Marks]**

### **QUESTION 3**

a) Explain the concepts of price elasticity of demand, income elasticity of demand and cross price elasticity of demand.

[12]

b) How may the knowledge of these concepts help a retailer in business

[13]

**TOTAL [25 Marks]**

### **QUESTION 4**

a) Explain the Marginal Revenue Productivity theory of the demand for labour in an industry.

[10]

b) Use this theory to discuss the possible effects on wages and employment as a result of introducing a national minimum wage in that industry?

[15]

**TOTAL [25 Marks]**

### **QUESTION 5**

a) Compare and contrast the features of perfect competition with those of oligopoly market structure.

[12]

b) Discuss why oligopoly is a more common market structure than perfect competition?

[13]

**TOTAL [25 Marks]**

### **QUESTION 6**

Giving appropriate examples explain what is meant by

- |                                    |     |
|------------------------------------|-----|
| a) Opportunity Cost                | [5] |
| b) Post hoc fallacy                | [5] |
| c) Income and Substitution effects | [5] |
| d) Diminishing marginal returns    | [5] |
| e) Marginal rate of substitution   | [5] |

**TOTAL [25 Marks]**