

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING**

**PRINCIPLES OF MICRO ECONOMICS
CBA 1104**

SUPPLEMENTARY EXAMINATION

AUGUST 2008

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

Answer any FOUR (4) questions.

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.

Questions may be written in any order, but must be legibly numbered.

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

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[Turn over]

QUESTION 1

- (1) Recently there has been a growing popularity amongst most governments to move towards a free market. Evaluate the desirability of such a move on the economies of these Governments. [25 marks]

TOTAL

[25 MARKS]

QUESTION 2

Given that the demand and supply functions are represented by the following functions; $Q_d=65\,000-10P$ and $Q_s=-350\,000 + 15P$ respectively.

- (a) Calculate the equilibrium price. [2 Marks]
(b) Calculate the equilibrium quantity using price from (a). [2 Marks]
- (c) (i) Calculate the equilibrium quantity if price is 50000 and 350000. [4 Marks]
(ii) What is the state of the market at $P=5000$ and $P=3000$. [2 Marks]
- (d) What is the new equilibrium demand function given that demand has increased by 10000 units? [3 Marks]
- (e) What is the new equilibrium price and quantity given the above conditions? [4 Marks]
- (f) What factors explain the changes in (d). [8 marks]

TOTAL

[25 MARKS]

QUESTION 3

- (a) Describe the shutdown and the supply curve of a perfectly competitive firm in the short run. [10 Marks]
(b) Why are there different levels of profits within perfect competition and between perfect competition and monopoly? [15 Marks]

TOTAL

[25 MARKS]

QUESTION 4

Explain the following terms;

- (a) Opportunity Cost [5 Marks]
- (b) Income and substitution effect. [5 Marks]
- (c) Diminishing marginal returns [5 Marks]
- (d) Post hoc fallacy. [5 Marks]
- (e) Marginal rate of substitution. [5 Marks]

TOTAL

[25 MARKS]

QUESTION 5

How are wages determined? Discuss in relation to your country. [25 Marks]

TOTAL

[25 MARKS]

QUESTION 6

6) Write brief notes on the following;

- i) Price elasticity of demand. [4 Marks]
- ii) Income elasticity of demand and [4 Marks]
- iii) Cross elasticity of demand. [4 Marks]

b) Suppose the number of cameras demanded in Zimbabwe at various prices is as follows

Price of cameras	Quantity demanded per year(millions)
80	20
100	18
120	16

Calculate the arc elasticity of demand when

- (a) The Price is between \$80 and \$100. [3 Marks]
- (b) The Price is between \$100 and \$120. [3 Marks]
- (c) Comment on your findings [7 Marks]

TOTAL

[25 MARKS]