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 2010**

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions.
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme.
- Show all workings
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

- The paper contains **SIX (6)** questions.
- All questions carry equal marks **[25 marks].**
- The businesses in this question paper are intended to be fictitious.

This paper consists of 5 printed pages

Turn over

QUESTION ONE

(a) What are the functions of prices in a market economy? [9 marks]
(b) Use a diagram to illustrate and explain consumer surplus and producer surplus. [13 Marks]

(c) What do economists mean by demand? [3 Marks]

TOTAL [25 MARKS]

QUESTION TWO

(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 THREE

(a) Using diagrams, explain the conditions under which all the income of a factor can be;

(i) Transfer earnings [7 Marks]

(ii) Economic rent [7 Marks]

(b) Giving appropriate examples, explain what is meant by Income and Substitution effects. [7 Marks]

(c) Explain what is meant by Post hoc fallacy. [4 Marks]

TOTAL [25 MARKS]

QUESTION FOUR

The table below gives some of the information relating to the cost of producing bags of maize.

Bags of maize	TFC	TVC	TC	AFC	AVC	ATC	MC
0	10		10				
1			19		9		
2			27	(iii)	8.5		
3			34		8.0		
4	(i)		40		7.5		
5			47		7.4		
6		(ii)	55		7.5		
7			64		7.714		
8			74		8.0		
9			85		8.33		
10			96		8.6	(iv)	

TFC: Total fixed cost

AFC: Average fixed cost

TVC: Total variable cost,

AVC: Average variable cost

TC: Total cost

ATC: Average total cost

MC: Marginal cost

a) Refer to the above table. Identify the missing data for cells (blocks) marked (i) to (iv). [4 Marks]

b) Refer to the above table. Are these figures for the long-run or the short-run? Give a reason for your answer. [4 Marks]

c) Refer to the above table. Sketch the ATC, AVC, AFC and MC curves. [8 Marks]

d) In your opinion, how applicable is the theory of wage determination in the Zimbabwean labor market? [9 Marks]

TOTAL [25 MARKS]

QUESTION FIVE

(a) Show how a specific tax of R10 per unit on production will affect the equilibrium price and quantity in each of the following two cases:

i) The demand for the good is price inelastic.

ii) The demand for the good is price elastic.

Use a separate diagram to answer each of questions (i) and (ii). Assume in both cases that the supply curve is perfectly price elastic. **[10 Marks]**

b) Refer to your answers to question (a) above and identify the types of goods that government chooses to tax. Give reasons for your answer. [5 Marks]

c) Use diagrams to explain how a demand curve for a product is derived using indifference curves and budget lines. [10 Marks]

TOTAL [25 MARKS]

QUESTION SIX

(a) In a perfectly competitive market economic profits and losses act as a signal to firms. Profits encourage firms to enter, and losses to exit, an industry. Use diagrams to show how perfectly competitive firms respond to an increase in the market demand for their output in both the short-run and the long-run. [20 Marks]

(b) What do economists mean by Pareto Optimality? [5 Marks]

TOTAL **[25 MARKS]**