

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

PRINCIPLES OF MICROECONOMICS [CBA 1104]

FINAL EXAMINATION

DECEMBER 2014

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any 4 questions
- Start the answer to each question on a fresh page of the answer sheet.

INFORMATION FOR CANDIDATES

- The paper contains **SIX (6)** questions.
- All questions carry equal marks [**25 marks**]

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

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

This paper consists of 7 printed pages
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[Turn over]

QUESTION ONE

The following data relates to the demand and supply of Musiyavhanu Bread in Domboshava.

$$Q_d = 600 - 50P$$

$$Q_s = -200 + 150P$$

- a. Calculate:
 - i. The market clearing price. [4 marks]
 - ii. The quantity demanded and quantity supplied at equilibrium. [4 marks]
- b. Assume a \$1 tax is imposed on bread producers in (a) above. Compute:
 - i. The new supply equation for bread in Domboshava. [2 marks]
 - ii. The new equilibrium price and the quantity supplied at that price. [4 marks]
 - iii. The total amount of consumer tax burden. [2 marks]
 - iv. The total amount of producer tax burden. [2 marks]
 - v. Total revenue generated by the government. [2 marks]
- c. Analyse the overall impact of the tax on society (you may use a diagram to illustrate your answer). [5 marks]

TOTAL 25 MARKS

QUESTION TWO

- a. Explain the following economic concepts.
 - i. Constant opportunity costs [3 marks]
 - ii. Increasing opportunity costs [3 marks]
 - iii. Marginal Rate of Substitution (MRS) [3 marks]
- b. With reference to any two case studies of your choice evaluate the two prevalent economic systems used by nations today to answer the fundamental economic problem of scarcity. [16 marks]

TOTAL 25 MARKS

QUESTION THREE

- a. To what extent is the concept of price elasticity of demand relevant to a marketing manager of a supermarket? [12 marks]
- b. Discuss how consumers attain equilibrium in the goods market using the cardinal and ordinal approach to consumer behaviour. How do these approaches differ and where do they converge? [13 marks]

4. XYZ is a company that deals with manufacturing computers. The table below shows the relationship between the number of workers and XYZ's output.

Workers	Output	Marginal Product	Total Cost	Average Total Cost	Marginal Cost
0	0				
1	20				
2	50				
3	90				
4	120				
5	140				
6	150				
7	155				

- Fill in the column of marginal products and explain the pattern you see. [6]
- A worker costs \$100 a day, and the firm has fixed costs of \$200. Use this information to fill in the column for total cost. [4]
- Fill in the column for Average Total Cost and briefly describe the pattern you see. [6]
- Calculate the Marginal cost and briefly describe the pattern depicted. [6]
- Compare the column for marginal product and the column for marginal cost and explain the relationship. [3]

Total Marks
[25]

5. a. What is meant by a competitive firm? [1]

- List the conditions necessary for perfect competition. [4]
- With the aid of a diagram, derive the supply curve of a competitive firm, stating any assumptions that you have made. [8]
- Using a diagram, illustrate and explain a competitive firm's long-run decision to enter or exit the market. [6]
- Define oligopoly and briefly explain any type of oligopolistic model that you know. [6]

Total Marks
[25]

6. a. Describe some of the ways in which policymakers in Zimbabwe can respond to the inefficiencies caused by monopolies? [12]

- Briefly explain any potential problems associated with each of the ways that you have stated in (a) above. [8]
- In your opinion, what strategies can policy makers implement to overcome these problems? [5]

Total **Marks**
[25]

TOTAL 25 MARKS