



NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

PRINCIPLES OF MICROECONOMICS

CBA 1104

Supplementary Examination Paper

August 2015

This examination paper consists of 3 pages

Time Allowed: 3 hours

Total Marks: 100

Examiner's Name: Miss Nothando Tshuma & Ms Sibonginkosi Chaibva

INSTRUCTIONS

1. Answer any four (4) questions.
2. Each question carries 25 marks.
3. Use of calculators is permissible.

MARK ALLOCATION

| QUESTION | MARKS |
|-----------------|--------------|
| 1. | 25 |
| 2. | 25 |
| 3. | 25 |
| 4. | 25 |
| 5. | 25 |
| TOTAL | 100 |

QUESTION ONE

- a. State five conditions necessary for a market to exist. [5 marks]
- b. With the aid of diagrams , explain the following terms:
- i. Market Equilibrium [4 marks]
 - ii. Diminishing Marginal returns [4 marks]
 - iii. Consumer surplus [4 marks]
 - iv. Producer surplus [4 marks]
 - v. Deadweight loss [4 marks]

TOTAL 25 MARKS

QUESTION TWO

- a. Michael Ncube has the following utility and budget conditions associated with his demand for ice-cream and frozen yoghurt. The prices of ice-cream and frozen yoghurt are \$2 and \$3 respectively. He has a fixed income of \$10. The following table shows the utility derived from ice-cream and frozen yoghurt per week.

| Units | Total Utility(Ice-cream) | Total Utility (Yoghurt) |
|-------|--------------------------|-------------------------|
| 1 | 30 | 39 |
| 2 | 50 | 69 |
| 3 | 64 | 93 |
| 4 | 74 | 111 |
| 5 | 80 | 126 |

Calculate:

- i. The weighted marginal utilities of ice-cream and frozen yoghurt.[10marks]
 - ii. The optimum level of ice-cream and frozen yoghurt. [5marks]
- b. Describe the properties of indifference curves. [10 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. Using the cardinal and ordinal approach, explain how consumers attain equilibrium in the goods market. [13 marks]

TOTAL 25 MARKS

QUESTION FOUR

- a. What is the difference between accounting costs and economic costs [2 marks]

The table below gives the total cost and total revenue for Company ABC.

| | | | | | | | | |
|-------------------------------|---|---|----|----|----|----|----|----|
| Quantity | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Total Cost(\$ 000) | 8 | 9 | 10 | 11 | 13 | 19 | 27 | 37 |
| Total Revenue \$ (000) | 0 | 8 | 16 | 24 | 32 | 40 | 48 | 56 |

- b. Calculate profit for each quantity and determine how much ABC should produce in order to maximize profit. [9 marks]
- c. Calculate the marginal revenue and marginal cost for each quantity and explain the relationship between the two. [14 marks]

TOTAL 25 MARKS

QUESTION FIVE

- a. Distinguish between monopoly and monopolistic competition. [6 marks]
- b. With reference to a monopoly that you know of in Zimbabwe, explain why monopolies arise. [5 marks]
- c. Explain the advantages and disadvantages of a monopoly market structure. [8 marks]
- d. With the aid of a diagram, describe the shutdown condition of a perfectly competitive firm. [6 marks]

TOTAL 25 MARKS

QUESTION SIX

- a. Explain the relationship between Total Cost, Average Cost and Marginal Cost. [7marks]
- b. State the four main types of market structures. [4 marks]
- c. Using an example of a Zimbabwean firm, briefly describe the dominant firm model in oligopolistic models. [6 marks]
- d. Compare and contrast monopoly and competitive market structures. [8 marks]

TOTAL 25 MARKS