

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF ARCHITECTURE AND QUANTITY SURVEYING
BACHELOR OF QUANTITY SURVEYING (HONOURS) DEGREE
PART I FIRST SEMESTER EXAMINATIONS – DECEMBER 2005**

PRINCIPLES OF MICROECONOMICS– AQS 1104

TIME: 3 Hours

TOTAL MARKS: 100

INSTRUCTIONS:

Answer question **1** and **any other 3** questions.

QUESTION 1

- a) A consumer is spending an entire weekly income on goods X and Y. The consumer spends his income such that the last dollar spent on X yield a marginal utility of 15 and the last dollar spend on Y yields a marginal utility of 23. Advise the consumer on how he can be in equilibrium and fully explain your answer. (10 marks)
- b) Use the income and substitution effects to analyse the effect of an increase in the price of good X assuming that the price of good Y and income are unchanged (NB: include also the derivation of the demand curve). (15 marks)

QUESTION 2

- a) What is meant by:
(i) Opportunity cost (3 marks)
(ii) Marginal cost (2 marks)
- b) When an individual's income rose from \$6 500 per month to \$7 000 0000 per month, her consumption of mealie meal went from 10kg to 11kg.
- i) What is her income elasticity of demand for mealie meal? (3 marks)
ii) State whether her mealie meal is an inferior or a normal good and give brief reasons. (2 marks)
- c) Define elasticity of demand and outline its usefulness to an industrialist. (15 marks)

QUESTION 3

Discuss other differences between perfect competition and monopoly and compare the results of these systems both in the short run and the long run.

(25 marks)

QUESTION 4

Economic systems are institutional arrangements adopted by countries as mechanisms to address the four fundamental economic problems. Discuss these basic systems giving their pros and cons.

(25 marks)

QUESTION 5

- a) Explain and illustrate with the aid of diagrams, the relationships between the average, marginal and total product curves and show the region of economic production. (15 marks)
- b) When marginal cost exceeds (or falls short of) Average cost or Average Variable cost, both are being pulled up or down by marginal cost. Show and explain why. (5 marks)
- c) Derive the long run cost curves under the traditional theory. (5 marks)

END OF EXAMINATION