

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY  
FACULTY OF THE BUILT ENVIRONMENT  
BACHELOR OF QUANTITY SURVEYING (HONOURS) DEGREE  
PART I SECOND SEMESTER EXAMINATIONS- FEBRUARY 2010**

**PRINCIPLES OF MICROECONOMICS – AQS 1204**

**INSTRUCTIONS TO CANDIDATES**

1. Choose and answer any four questions from the six below.
  2. Start each whole question on a fresh page and write clearly.
  3. Whole questions may be attempted in any order.
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**Question 1**

- (a) What are the functions of prices in a market economy (9 marks)
- (b) Briefly describe a command economy. Explain using examples why some modern economies have made a transition to a market economy system. (16 marks)

**Question 2**

- (a) Assume the following functions relate to the supply and demand for sadza at Mai Andrea's kitchen:  
Quantity demanded per week =  $65\,000 - 10P$   
Quantity supplied per week =  $-35\,000 + 15P$   
Calculate:
  - (i) the market-clearing price. (3 marks)
  - (ii) the equilibrium quantity. (3 marks)
- (b) Using appropriate diagrams, explain the impact of a subsidy and excise duty on the equilibrium price and quantity of products (13 marks)
- (c) Use a graph to distinguish a price floor from a price ceiling. (6 marks)

### **Question 3**

- (a) Explain the concepts of price elasticity of demand, income elasticity of demand and cross price elasticity of demand. (12 marks)
- (b) Explain the link between price elasticity of demand and the revenue decisions of a firm. Use illustrations in your answer. (13 marks)

### **Question 4**

- (a) Apart from profit maximization, state the other objectives that firms in an economy may pursue. (6 marks)
- (b) Define the following terms:
- (i) Diminishing returns (4 marks)
- (ii) Returns To Scale (6 marks)
- (c) Explain the relationship between Marginal Product ( $MP_L$ ) and Average Product ( $AP_L$ ) (5 marks)
- (d) Illustrate diagrammatically the link between Total Product ( $TP_L$ ) and Marginal Product ( $MP_L$ ). (4 marks)

### **Question 5**

- (a) Compare and contrast the features of a perfectly competitive firm with those of a monopolistically competitive firm. (12 marks)
- (b) Discuss why the oligopoly market structure is more common than perfect competition. (13 marks)

**Question 6**

- (a) Explain the Marginal Revenue Productivity (MRP) theory of the demand for labour in an industry. (10 marks)
- (b) Examine the key factors that explain wage differentials. (15 marks)