

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

**PRINCIPLES OF MICROECONOMICS – AQS 1104
SUPPLEMENTARY EXAMINATION**

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 is meant by the terms scarcity and opportunity cost. (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) In long-run equilibrium, $P = MC = AC$ for the perfectly competitive firm. Explain the significance of this equality for both productive and allocative efficiency. Illustrate your answer with a diagram of the perfectly competitive firm. (15 marks)
- b) Compare the demand curve of the monopolist with that of the perfectly competitive firm. Give a full explanation for the difference between the two curves. Illustrate your answer with the appropriate diagrams. (10 marks)

Question 3

- (a) Distinguish the concept of price elasticity of demand from that of 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) Explain any two objectives that firms in an economy may pursue apart from profit maximization. (6 marks)
- (b) Explain why diminishing returns occur for short-run production. (7 marks)
- (c) Describe the three types of Returns To Scale associated with the long-run production function. (12marks)

Question 5

- (a) Compare and contrast the features of a perfectly competitive firm with those of a monopoly firm. (12 marks)
- (b) Discuss why the oligopoly market structure is more common and explain why oligopoly firms are more inclined to collude with each other. (13 marks)

Question 6

- (a) How are wages determined in perfectly competitive markets? What are the limitations of the classical theory of wage determination? (15 marks)
- (b) Using an appropriate graphical illustration, explain the difference between transfer earnings and economic rent. (10 marks)