

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**FACULTY OF THE BUILT ENVIRONMENT**  
**BACHELOR OF QUANTITY SURVEYING (HONOURS) DEGREE**  
**PART I FIRST SEMESTER EXAMINATIONS DECEMBER 2011**  
**PRINCIPLES OF MICROECONOMICS - AQS 1104**

Time: 3 Hours

Total marks: 100

**INSTRUCTIONS TO CANDIDATES**

- Answer any **FOUR (4)** questions.
  - Start the answer to each full question on a fresh page of the answer sheet.
  - You may use a calculator.
  - All calculations are to be presented in good style and workings should be shown.
  - Questions may be written in any order, but must be legibly numbered.
  
  - All questions carry equal marks [**25 marks**].
  
  - The businesses in this question paper are intended to be fictitious.
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**QUESTION 1**

- a) Construct your own version of a production possibility curve (frontier) and use it to explain scarcity, choice and opportunity cost. [10 marks]
  
- b) “Economics is concerned with two problems. One has to do with achieving full employment of the economy’s available resources. The other is to do with allocating economic resources among various possible uses. Both aspects emphasize efficiency in the use of resources”. Discuss. [15 marks]

## **QUESTION 2**

Suppose the total demand for wheat and total supply of wheat per month in the Springvale Grain Marketing Board depot are as follows:

<b>Thousands of kilograms demanded</b>	<b>Price in \$ per kilogram</b>	<b>Thousands of kilograms supplied</b>	<b>Surplus (+ve) or Shortage (-ve)</b>
90	1.70	70	
85	1.80	72	
80	1.90	73	
75	2.00	75	
70	2.10	77	
65	2.20	79	
60	2.30	81	
55	2.40	83	

- a) Define the market equilibrium price. [4 marks]
- b) Using the given data, draw the demand and supply curves of wheat, clearly indicating the equilibrium price and equilibrium quantity. [5 marks]
- c) Why will \$2.10 not be the equilibrium price on the market? [5 marks]
- d) Suppose the government establishes a price ceiling of \$1.90. Explain carefully the effect of this ceiling price. Demonstrate your answer graphically. [5 marks]
- e) Discuss the reasons that might prompt governments to establish price ceilings on products and services. [6 marks]

### **QUESTION 3**

- a) Assume a firm has fixed costs of \$60 and variable costs are indicated below, complete the table below. [10 marks]

<b>Total Product (TP)</b>	<b>Total Fixed Cost (TFC)</b>	<b>Total Variable Cost (TVC)</b>	<b>Average Fixed Cost (AFC)</b>	<b>Average Variable Cost (AVC)</b>	<b>Average Total Cost (ATC)</b>
0		0			
1		45			
2		85			
3		120			
4		150			

- b) Explain the difference between accounting costs and economic costs. [5 marks]
- c) How are the average product and the marginal product of a variable factor of production employed by a firm related? [5 marks]
- d) Determine the relationship between the law of diminishing returns and the shape of the short-run average and marginal cost curves. [5 marks]
- e)

### **QUESTION 4**

- a) Analyse the similarities and differences between perfect competition and monopolistic competition. [12 marks]
- b) Explain why the oligopoly market structure is the most common form of firm configuration in the real world. [13 marks]

### **QUESTION 5**

- a) Why are monopolies considered to be against public interest? [15 marks]
- b) Discuss some of the measures that might be taken to regulate the activities of monopolies? [10 marks]

### **QUESTION 6**

- a) Explain why the demand curve for labour is derived demand. [5 marks]
- b) “Minimum wages inevitably result in an increase in unemployment.” What is your considered view? [10 marks]
- c) Discuss the different ways in which a trade union can attempt to increase the wage rates of its members. [10 marks]