MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS AND COMMERCE

Department of Agricultural Economics and Development

Accounting

PRINCIPLES OF MICROECONOMICS

CODE: ECON101

SESSIONAL EXAMINATIONS
SEPTEMBER 2021

DURATION: 3 HOURS

EXAMINER: MR N. CHIPUNZA

INSTRUCTIONS

1. *Answer ALL questions in Section A.*
2. *Answer any* ***Three*** *(3) questions in Section B.*
3. *Graph paper is needed for question 4 and 6*
4. *Start a new question on a fresh page*
5. *Total marks 100*

SECTION A [COMPULSORY]

Question 1 [5]

Imagine that you are a policymaker trying to decide whether to reduce or not reduce the rate of inflation. To make an intelligent decision, what would you need to know about inflation, unemployment and the trade-off between them? [5]

Question 2 [15]

When we are told that brand Y will make us more beautiful, enrich our lives, wash our clothes whiter, give us get-up and go, gives us a new taste sensation or make us the envy of our friends, just what are the advertisers up to? Trying to sell the product you may reply, in fact there is a bit more to it than this.

i. What are the two things' advertisers trying to do? [5]

ii. How will this affect the revenue for their company? [10]

Question 3 [20]

What are you sacrificing?

You may not have realised it, but you probably consider opportunity costs many times a day. The reason is that we are constantly making choices: what to buy, what to eat, what to wear, whether to go out, how much to study, when to do my work and so on. Each time we make such a choice, we are in effect rejecting some alternative. This alternative forgone is the opportunity cost of the action we chose. Sometimes the opportunity costs of our actions are the direct monetary costs we incur. Sometimes it is more complicated. Take the opportunity costs of your choices as a student of Accounting.

i. What might prevent you from making the best decisions? [5]

ii. If there are several other things you could have done, is the opportunity cost the sum of all of them? [5]

iii. Make a list of the benefits of higher education. [5]

iv. Is the opportunity cost to the individual of attending higher education different from the opportunity costs to society as a whole? [5]

SECTION B ANSWER ANY 3 QUESTIONS

Questions 4 [20]

Suppose that the price of basketball tickets at your college is determined by market forces. Currently, the demand and supply schedules are as follows:

Price	Quantity Demanded	Quantity Supplied
$4.00	10,000 tickets	8,000 tickets
$8.00	8,000	8,000
$12.00	6,000	8,000
$16.00	4,000	8,000
$20.00	2,000	8,000

i. Draw the demand and supply curves. What is unusual about this supply curve? Why might this be true? [6]
ii. What are the equilibrium price and quantity of tickets? [6]
iii. Your college plans to increase total enrolment next year by 5,000 students. The additional students will have the following demand schedule:

Price	Quantity Demanded
$4.00	4,000 tickets
$8.00	3,000
$12.00	2,000
$16.00	1,000
$20.00	0

Now add the old demand schedule and the demand schedule for the new students to calculate the new demand schedule for the entire college. What will be the new equilibrium price and quantity? [8]

Question 5 [20]
A policymaker is deciding how to finance the construction of a new airport. He can either pay for it by increasing citizens' taxes or by printing more money.
i. What are some of the short-run decisions would he consider? [10]
ii. What are some of the long-run decisions would he consider? [10]

Question 6 [20]
Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter."

i. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape. [5]

ii. Show a point that is impossible for the economy to achieve. [3]

iii. Show a point that is feasible but inefficient. [5]

iv. Imagine that the society has two political parties, called the Hawks (who want a strong military) and the Doves (who want a smaller military). Show a point on your production possibilities frontier that the Hawks might choose and a point the Doves might choose. [5]

v. Imagine that an aggressive neighboring country reduces the size of its military. As a result, both the Hawks and the Doves reduce their desired production of guns by the same amount. Which party would get the bigger "peace dividend," measured by the increase in butter production? Explain. [5]

Question 7 [20]

Discuss the determinants of Price Elasticity of Demand. [20]

Question 8 [20]

Discuss the assumption of perfect competition as a market structure. [20]

END OF EXAMINATION