MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS AND COMMERCE

DEPARTMENT OF AGRICULTURE ECONOMICS AND DEVELOPMENT

PRINCIPLES OF MICROECONOMICS

CODE: ECON101

SESSIONAL EXAMINATIONS
August 2022

DURATION: 3 HOURS

EXAMINER: Ms. P. Dube

INSTRUCTIONS

1. *Answer Four (4) questions.*
2. *Start a new question on a fresh page*
3. *Total marks 100*

Question 1

a. In market X that supplies bread, there are three consumers Lisa, Tanaka and Ethan. Lisa wants to buy two (3) loaves of bread, she has the money and she is willing to spend his money on bread. Tanaka can afford six (6) loaves but he is not willing to spend his money on bread. Ethan wants three (5) loaves of bread and he is willing to spend his money on bread but he can only afford two (2) loaves of bread.
   - i. What is Tanaka's demand of bread? (2)
   - ii. What is Ethan's demand of bread? (2)
   - iii. What is the effective market demand for bread? (3)

b. List any four factors that can cause a change in demand for bread in Market X (factors that can shift the demand curve for bread) (4)

c. Assuming that a firm faces an inelastic demand and wants to increase its total revenue.
   - i. In what direction should it change its price? (6)
   - ii. Is there any limit to how far it should go in charging its price in this direction? (8)

Question 2

a. Explain graphically what would happen to the supply of mealie meal if:
   - i. Cost of production rises (3)
   - ii. Technology improves (3)
   - iii. Taste and preference of consumers changes (3)

b. Using a well labelled diagram differentiate between the concept of consumer surplus and producer surplus (4)

c. For the following demand function $Q_d=24-4P$ and $Q_s=13P-27$
   - i. Find the equilibrium price and quantity (3)
   - ii. Calculate the consumer surplus (3)
   - iii. Define the term price elasticity of demand (also state the mathematical formulae). (4)
   - iv. Advice a business firm on how it can make use of the price elasticity of demand in its day-to-day activities. (6)

Question 3

a. Analysis of the Law of diminishing returns utilizes the concept of indifference curve. Briefly explain the properties of an indifference curve (6)

b. With the aid of diagrams, illustrate the effect of technological change on agricultural production on the following:
   i. Total Product curve (4)
   ii. Isoquant (4)
   iii. Production Possibility frontier (4)

c. Explain the law of diminishing returns as it applies in production (2)

d. Sofia has $100, which she plans to spend on ice cream and/ or pancakes. The price of ice cream is $10 per cup whilst a pancakes sale for $5 each. Using a well labelled diagram, present Sofia "s budget line (5)

Question 4

a. Draw a graph showing the short run equilibrium position of a monopolistic firm highlighting the equilibrium price, output and total and total profit or loss (10)

b. Describe five characteristics of a monopoly (10)

c. Define cross price elasticity of demand and explain when it is positive or negative (5)

Question 5

a. Using examples give a brief explanation of:
   i. Why scarcity implies choice among alternatives (3)
   ii. Law of diminishing returns (3)
   iii. Principle of equi-marginal returns (3)
   iv. Disposable income (3)
   v. Derived demand of inputs (3)

b. Discuss the major highlights of the Zimbabwe economic history (10)

Question 6

The purpose of rent control is to protect tenants from paying high rent, as well as to provide cheap housing for the very poor. However, many economists argue that in practice such rent controls only succeed in making a larger part of the population worse off.

a. Explain why rent controls make a large population worse off (5)
b. Using a well labelled diagram determine what will be the effect of setting rent control. (10)
c. If government gives poor people rent allowances (i.e., grants), how will this affect the level of rents in an uncontrolled market? (5)
d. What determine the size of the effect? (5)

Question 7

a. Define a cartel and give two practical examples (6)
b. If collusion is illegal in most countries, how have oligopolist firms managed to overcome this problem? (8)
c. Differentiate between a price leadership model and a kinked demand model. Which, between these two models is more realistic in explaining the behavior of oligopolistic firms. Give examples (5)

END OF EXAMINATION