

UNIVERSITY OF FORT HARE
ALICE AND EAST LONDON CAMPUS

ECO121L & ECO121F

BACHELOR OF COMMERCE

Oct/Nov 2024

SUPPLEMENTARY EXAM

Time: 3 Hours

Subject: Introduction to Economics (Micro-Economics)

Marks: 100

This paper consists of 15 pages including the cover page

Internal Examiners

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Instructions

- Answer ALL questions in section A and section B
- Answer ONLY ONE question in section C, both questions carry equal marks.
- Section A is to be answered on the answer grid provided.
- Answer Section B and Section C in answer books
- The multiple-choice answer sheets are to be placed inside the examination book on completion of the examination.
- Use clearly drawn diagrams where necessary.
- Calculators are allowed.
- Answers must be rounded off to two (2) decimal places.

Section A: Compulsory

Question 1 [50]

1. Within the political marketplace, equilibrium occurs when:

- i. a democratic vote elects a government.
- ii. all players are in their best position and cannot improve it by changing their choice.
- iii. politicians actually fulfil their promises.

- a) i
- b) ii
- c) iii
- d) All of the above.

2. Consider the marketplace for DSTV. DSTV can be described as a good that is:

- a) rival and excludable.
- b) rival but not excludable.
- c) non-rival and excludable
- d) non-rival but not excludable.

3. Which of the following can be described as common resources?

- i. snacks available at a function
- ii. a city road with cars stuck in a traffic jam
- iii. SABC broadcast signals

- a) i and ii
- b) i and iii
- c) ii and iii
- d) None of the above.

4. Which of the following is the best example of an externality?

- a) the public park is maintained by the municipality
- b) the local shopping centre installs a daycare/playground for its clients
- c) a dilapidated house in a street is bought and upgraded
- d) All of the above.

5. Which of the following does not apply to the definition of common resources?

- a) There is no charge to using it.
- b) Anyone has access to it.
- c) It is common as it is not scarce.
- d) Each use reduces the quantity left over for others.

6. A new township is established with 50 homes. Forty of the new homeowners are scared of crime and would each value a boundary fence at R2 000 per home. Ten homeowners are not worried about crime and a fence holds zero value for them. The marginal social benefit of a fence is valued at _____. If the cost of erecting a fence is R50 000, will efficiency be reached?

- a) R80 000; yes
- b) R80 000; no
- c) R100 000; no
- d) R100 000; yes

7. Why would an ignorant voter be considered rational?

- a) The opportunity cost of being informed is much higher than the perceived benefit.
- b) Ignorance is bliss.
- c) A voter does not need to be informed as they vote for politicians to represent them.
- d) Most voters are ill-informed, so it is best to fit in with the crowd.

8. In which aspects does a perfect competitor differ from a monopolistic competitor?

- | |
|--------------------|
| i. product type |
| ii. consumer type |
| iii. market demand |

- a) i
- b) ii
- c) iii
- d) All of the above.

9. Which statement is true regarding a monopolistic competitor?

- a) It holds a smaller market share than a perfectly competitive firm.
- b) It can collude with close substitute suppliers.
- c) It will have higher fixed costs than a perfectly competitive firm.
- d) It can ignore the industry price for close substitutes when setting its level of output.

10. If a perfect competitor and a monopolistic competitor faced identical cost curves:

- a) the monopolistic competitor will produce more at a lower cost.
- b) the perfect competitor will produce more at a lower cost.
- c) the monopolistic competitor could make an economic profit in the long run.
- d) both firms will produce at minimum average total cost in the long run.

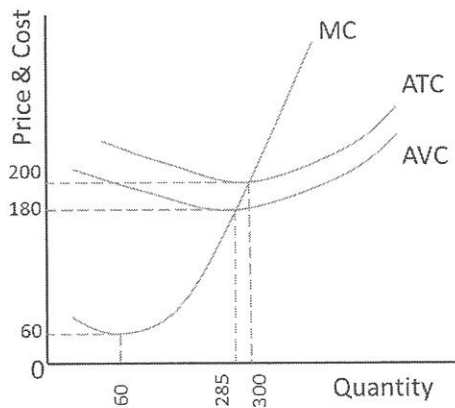
11. Producing at an efficient scale requires producing at ____ at the lowest ____.

- a) full capacity; average total cost
- b) full capacity; use of resources
- c) excess capacity; average total cost
- d) the intersection of marginal revenue and costs; profitable price

12. Monopolistic competitors have a large advertising budget that forms part of their selling costs. Successful advertising results in ____.

- | |
|--------------------------|
| i. a more elastic demand |
| ii. a lower mark-up |
| iii. an increased output |

- a) i
- b) ii
- c) iii
- d) All of the above.



13. The above graph shows the cost curves of an oligopoly. The market demand is given as $P = 1160 - 0.8Q_d$. How many firms can this market support and what will the price be?
- a) 3 and R180
 - b) 4 and R180
 - c) 5 and R200
 - d) 6 and R200

14. Oligopolies produce ___ and compete on ___.

- a) either identical or differentiated products; either just price or price, quality and marketing
- b) identical products; price, quality and marketing
- c) differentiated products; price only
- d) unique products; niche markets

15. A monopolist market occurs where ___ produces goods ___ and where ___.

- a) the market; with no close substitutes; high prices can be charged
- b) the market; that are not complementary; people buy only a single brand
- c) a single firm; with no close substitutes; entry is blocked for new comers
- d) a single firm; that are not complementary; few firms wish to compete

16. Which of the following apply to monopolists?

- i. The firm faces the market demand curve.
- ii. They are price makers.
- iii. They do not maximise profit where $MR = MC$.

- a) i and ii
- b) i and iii
- c) ii and iii
- d) All of the above.

17. Which of the following is not a legal barrier to market entry for a monopolistic market?

- a) regional franchise
- b) public franchise
- c) copyright
- d) patent

18. If a monopolist decided to produce within the ___ part of the demand curve, it could increase revenue by ___ and ___.

- a) elastic; increasing the price; selling more
- b) inelastic; lowering the price; selling more
- c) inelastic; lowering the quantity; selling it at a higher price
- d) elastic; lowering the quantity; selling it at a higher price

19. Which of the following characteristics are shared by a monopolist and a perfect competitor?

- i. They face the same production constraints.
- ii. They use the break-even between marginal revenue and marginal cost to determine optimal output.
- iii. The relationship between marginal revenue and demand.

- a) i and ii
- b) ii and iii
- c) i and iii
- d) All of the above.

20. What statement is applicable to price discrimination in the monopolist market?

- a) There is no loss in consumer surplus.
- b) It achieves efficiency.
- c) Marginal revenue remains unchanged.
- d) Output shrinks further.

21. Consider the case of a natural monopoly. Which statement is false?

- a) It can have a positive economic profit despite price cap regulation.
- b) Average cost pricing regulations generate a dead weight loss.
- c) It profits from producing at an efficient quantity.
- d) Regulation can increase output and decrease prices.

22. Which of the following is/are features of a perfectly competitive market?

- i. Each produces a slightly differentiated product in order to compete better.
- ii. Buyers are better informed than sellers on special bargains due to easy access to information.
- iii. Established firms have no advantage over new entrants.

- a) i
- b) ii
- c) iii
- d) All of the above.

23. The goal of the firm is to ____. This is achieved by keeping the total cost down including ____ and ____.

- a) maximise income; labour costs; capital costs
- b) maximise economic profit; opportunity costs of production; normal profit
- c) break even over the long run; economic; normal profit
- d) maximise normal profit; opportunity costs of production; economic profit

24. The market demand curve for a firm in a perfectly competitive market is horizontal. This indicates that:

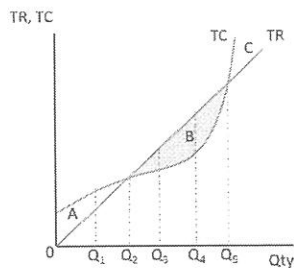
- a) its product has perfect substitutes.
- b) the demand for its product is perfectly elastic.
- c) it can sell its full production at market price.
- d) All of the above.

25. Which of the following statements is/are true?

- i. Profit is maximised when average total cost is at a minimum.
- ii. Marginal revenue is the price received for selling one extra item.
- iii. In the short run, the market supply curve sums the quantities supplied by individual firms at certain prices.

- a) i and ii
- b) i and iii
- c) ii and iii
- d) None of the above combinations.

Use the following graph to answer questions 26 and 27.



26. At a quantity of Q_6 or larger, the firm needs to ___ to ___.

- a) reduce its output; maximise profit
- b) rein in costs; stay viable
- c) decide how to invest its profits; expand production capacity
- d) shut down; minimise its losses

27. Maximum profit is indicated by:

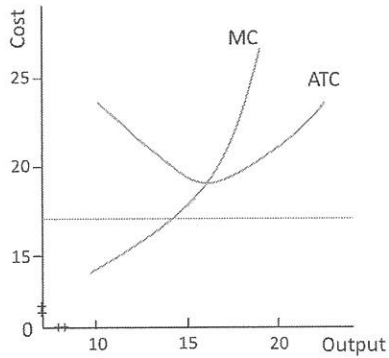
- a) area A, between Q_0 and Q_2 .
- b) area B, between Q_2 and Q_5 .
- c) the vertical distance between TR and TC at Q_4 .
- d) the marginal product equal to the marginal revenue at Q_5 .

28. External economies are factors that the firm cannot control that lower the ___ cost of production as the market output increases. In the long run this will result in ___.

- a) firm's; an increase in price

- b) firm's; a decrease in price
- c) market's; a decrease in price
- d) market's; an increase in price

Use the following graph of a competitive firm's cost curves to answer questions 29 to 31. The market price is R17.



29. What is total revenue earned at equilibrium?

- a) R238
- b) R304
- c) R272
- d) R280

30. What are the total costs at equilibrium?

- a) R304
- b) R280
- c) R272
- d) R238

31. Is the firm making a profit or a loss and how much?

- a) R42 abnormal profit
- b) R32 loss
- c) R42 loss
- d) R32 abnormal profit

32. Which of the following are true about the long run time frame of production?

- i. capital purchases are made
- ii. sunk costs influence production decisions
- iii. at least one production factor is fixed

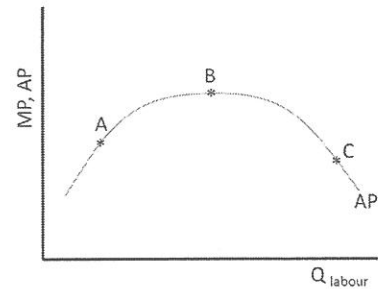
- a) i
- b) ii
- c) iii
- d) All of the above.

33. Consider the marginal, average and total production curves. Which statement is false?

- a) They start with positive slopes that then peak.
- b) After they reach a maximum point their slopes turn negative.

- c) They change at constant rates.
- d) They all illustrate the relationship between labour and output.

34. Consider this graph representing the average product curve. Which statement is true?



- a) The average and marginal products are equal at point B.
- b) Point C indicates the peak in total production.
- c) From point B to C, marginal product is negative.
- d) From point A to B, the marginal product has a positive slope.

35. Which of the following are included in total fixed costs?

- i. opportunity costs
- ii. economic profit
- iii. normal profit

- a) i and ii
- b) i and iii
- c) ii and iii
- d) None of the above.

36. Consider the cost curves of a firm in the short run. The first curve to reach a minimum is the ____, followed by the ____ and then the ____.

- a) average fixed cost curve; average variable cost curve; average total cost curve
- b) average variable cost curve; average total cost curve; average fixed cost curve
- c) average total cost curve; average variable cost curve; marginal cost curve
- d) marginal cost curve; average variable cost curve; average total cost curve.

37. A firm's product and cost curves are linked. Which of the following is false?

- a) The maximum marginal product of labour is reached at the minimum marginal cost of production for that output.
- b) The average variable cost of production is upward sloping after the average product of labour has reached a peak.
- c) Total product reaches a peak when the marginal cost is equal to the average variable cost.
- d) Marginal costs are at a minimum when total production changes from increasing to decreasing returns.

38. A decrease in a fixed cost will:

- i. leave the average fixed cost and total fixed cost unchanged.
- ii. decrease the marginal cost.
- iii. decrease the vertical distance between the average variable cost and the total variable cost.

- a) i
- b) ii
- c) iii
- d) None of the above.

39. Economies of scale are features of a firm's ____ that make ____ as output increases.

- a) fixed assets; expanding production possible
- b) labour; average variable cost decrease
- c) technology; average total cost decrease

d) long run average cost; more profit

Q	VC	TC	AFC	AVC	ATC	MC
1	18					
2				A	23.50	B
3	41			13.67		
4	C		4.00		16.25	
5				11.80	D	10
6					14.67	E
7		106		F		18
8	G				16.25	
9		161		16.11	H	
10			1.60		20.00	

Use the following table to answer questions 40 and 41.

40. Calculate the values for A and C.

- a) 15.5 and 49
- b) 11.5 and 45
- c) 19.75 and 81
- d) 18.33 and 109

41. Calculate the values for B and D.

- a) 5.5 and 18.83
- b) 13 and 15
- c) 4.5 and 18.25
- d) 23 and 15.46

42. Which of the following statements are true regarding indifference curves?

- i. Perfect substitutes share indifference curves with an $MRS = 1$.
- ii. Complements share L-shaped indifference curves.
- iii. Poor substitutes share a flatter indifference curve.

- a) i and ii
- b) i and iii
- c) ii and iii
- d) All are false.

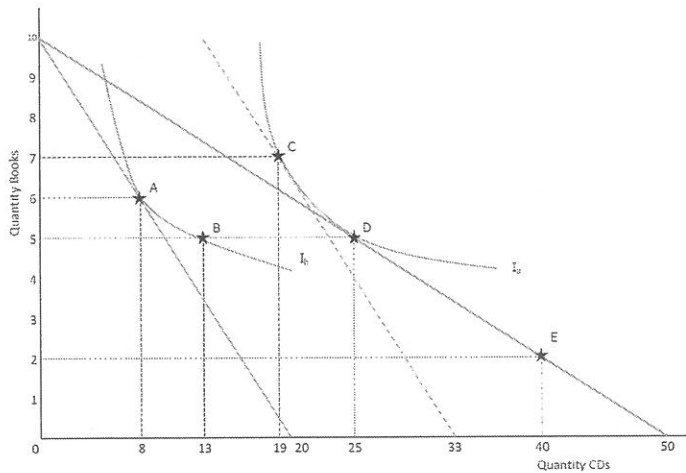
43. When the price of X changes, the income effect looks at the change in ...

- a) real income as measured by a change in the quantity demanded of Y.
- b) the quantity demanded of X due to a change in nominal income.
- c) the demand for X due to a change in the MRS with Y.
- d) the quantity demanded of X at a constant MRS but a changing utility.

44. Consider viennas as an inferior good with a negatively sloped demand curve. Which of the following is false when income increases?

- a) The substitution effect is positive.
- b) The income effect is greater than the substitution effect.
- c) Demand for viennas decreases.
- d) The income effect is negative.

The figure below represents the consumption possibilities of two goods: Books at R200 and CDs at R40. The consumer has an income of R2 000 to spend. Use this information to answer questions 45 to 50. Initial consumer equilibrium is at point D.



45. An increase in price of CDs to R100 will result in a new equilibrium of ___ books and ___ CDs.

- a) 6; 8
- b) 2; 40
- c) 7; 19
- d) 5; 13

46. The income effect of this higher price is:

- a) $19 - 13 = 6$
- b) $19 - 8 = 11$
- c) $25 - 19 = 6$
- d) $25 - 13 = 12$

47. The substitution effect of the increased price is:

- a) $19 - 13 = 6$
- b) $19 - 8 = 11$
- c) $25 - 19 = 6$
- d) $25 - 13 = 12$

48. By how much must income change to accomplish this split?

- a) a decrease of R1 300
- b) an increase of R1 300
- c) a decrease of R800
- d) an increase of R800

49. What is the marginal rate of substitution at point C?

- a) 0.5
- b) 0.2
- c) 0.37
- d) 0.29

50. What impact does the higher CD price have on the market for books?

- a) The price will decrease.
- b) The quantity demanded will increase.
- c) The demand curve will shift right.
- d) It will have no impact.

SECTION B: Compulsory

Question 2 [25]

- a) Why is the indifference curve convex to the origin? (2)
- b) What information is given by the budget line and how is its slope determined? (4)
- c) Describe the difference between marginal cost and average cost. When will these two costs be equal? (5)
- d) In a perfectly competitive market, when will the best option for the supplier be to shut down, rather than to continue doing business? (4)
- e) How is individual demand in a monopolistic competitive market determined? (5)
- f) What are the main characteristics of an oligopoly market? (5)

SECTION C

Answer only one question from this section

Question 3 [25]

- a) With the use of appropriate graphs, show how the demand curve can be deduced from the indifference curve analysis. (12)
- b) In the absence of competitors, a monopolist has total control when it comes to determining the price of their goods and the level of output they want to supply. How will they decide on what quantity to produce and at what price? **Use graphs where appropriate.** (13)

OR

Question 4 [25]

- a) With the aid of a well labelled graph, explain how the demand curve for an individual supplier in a perfectly competitive market is determined and how can the market demand curve for the short run be deduced? (6)

SECTION A: MULTIPLE CHOICE ANSWER SHEET

NAME.....STUDENTNO:..... COURSE.....

Indicate your choice by making a **CROSS** in the choice block:

Question number	Options: choose only one				
	USE an 'X' to select your answer				
1	a	b	c	d	e
2	a	b	c	d	e
3	a	b	c	d	e
4	a	b	c	d	e
5	a	b	c	d	e
6	a	b	c	d	e
7	a	b	c	d	e
8	a	b	c	d	e
9	a	b	c	d	e
10	a	b	c	d	e
11	a	b	c	d	e
12	a	b	c	d	e
13	a	b	c	d	e
14	a	b	c	d	e
15	a	b	c	d	e
16	a	b	c	d	e
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18	a	b	c	d	e
19	a	b	c	d	e
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25	a	b	c	d	e
26	a	b	c	d	e
27	a	b	c	d	e
28	a	b	c	d	e
29	a	b	c	d	e
30	a	b	c	d	e
31	a	b	c	d	e
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45	a	b	c	d	e
46	a	b	c	d	e
47	a	b	c	d	e
48	a	b	c	d	e
49	a	b	c	d	e

50	a	b	c	d	e
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