

**University of Fort Hare**

Degree Examinations  
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**AGE 111**

**Subject: Introduction to Agricultural Economics**

**Examiners**

**Internal Examiner**

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**Instructions**

Answer ALL questions in Section A and any TWO (2) questions in section B

## SECTION A

### QUESTION ONE (25marks – 1 mark per sub question)

Simply write the letter corresponding with the correct answer

- I. "Scarcity" is an economic problem
  - A. Only for poor families
  - B. Even for wealthy families
  - C. Only for people who live in less developed countries
  - D. For individuals and families, but not for governments and nations
  
- II. Your real cost of saving at the bank is
  - A. The interest your savings will earn
  - B. Having more money to spend in future
  - C. The money your bank lends to other people
  - D. The goods and services you could have bought today
  
- III. Specialization allows more goods and services to be produced with a given quantity of resources because it results in
  - A. More jobs
  - B. Lower wages
  - C. Higher output per worker
  - D. Less trade among workers and among countries  
  - A. In Bushland, the government owns all the industries and farms. Production goals and wages are set by the government. It provides education, child care, and medical care for its citizens. Bushland has a
  - B. Market economy
  - C. Barter economy
  - D. Command economy
  - E. Traditional economy
  
- IV. The use of money for purchases
  - A. Increases self-sufficiency

- B. Increases the use of barter in trading
  - C. Makes exchange of goods and services
  - D. Makes specialization of labour difficult
- V. In South Africa, prices for most goods and services are determined mostly by the actions of
- A. Businesses and consumers
  - B. Businesses and labour unions
  - C. Consumers and the government
  - D. Businesses and the government
- VI. If the demand for hamburgers increases , produces will
- A. Increase production and price
  - B. Decrease production and increase price
  - C. Decrease production and increase price
  - D. Increase production and decrease price
- VII. Improved technology in producing home computers usually will cause the supply of computers to
- A. Decrease and the price to increase
  - B. Decrease and the price to decrease
  - C. Increase and the price to increase
  - D. Increase and the price to decrease
- VIII. If there is a large decrease in demand in blue jeans and no change in supply
- A. Consumers will pay a lower price for blue jeans
  - B. Consumers will pay a higher price for blue jeans
  - C. There will be no change in the price of blue jeans
  - D. There will be no change in the number of blue jeans sold
- IX. A major economic role that government is supposed to perform in a market economy is to
- A. Maintain competition
  - B. Establish labour unions
  - C. Set wages and salaries
  - D. Guarantee that a business will earn profits

- X. The price of video cassettes will decrease if the  
(A) Supply of cassettes increases  
(B) Supply of cassettes decreases  
(C) Demand for cassettes increases  
(D) Demand for cassettes increases and the supply decreases
- XI. The two opposing forces which reach a balance in market equilibrium are:  
(A) government and scarcity.  
(B) competition and monopoly.  
(C) demand and supply.  
(D) labour and capital.
- XII. Competition among sellers tends to:  
A. prevent efficiency.  
B. decrease prices to their lowest opportunity cost of production.  
C. increase prices to their highest opportunity cost of production.  
D. decrease prices to their lowest satisfaction obtained from the good.
- XIII. If the quantity of ice-cream demanded is 100 scoops and the quantity supplied is 50 scoops, then the price of ice cream is:  
A. R2.  
B. greater than the equilibrium price.  
C. less than the equilibrium price.  
D. equal to the equilibrium price.
- XIV. The intersection of the supply and demand curves indicates:  
A. a surplus that will cause the price to fall.  
B. the quantity demanded is less than the quantity supplied.  
C. the quantity demanded is equal to the quantity supplied.  
D. the quantity demanded is greater than the quantity supplied.
- XV. If the quantity of available housing in a community is less than the quantity of houses demanded, then the price of housing:  
A. will remain unchanged.  
B. will fall to clear the market.  
C. will rise to clear the market.  
D. will either fall or remain unchanged.
- XVI. 17 A market produces too much of a good:  
A. when it is efficient.  
B. when the demand and supply prices are equal.  
C. when the demand price is greater than the supply price.  
D. when the demand price is less than the supply price.

- XVII. If an economy is producing inside the production-possibilities curve, then it has:
- (A) unemployment.
  - (B) full employment.
  - (C) economic growth.
  - (D) economic efficiency.
- XVIII. An economy that is able to produce more of one good without producing less of other goods has:
- (A) unemployment.
  - (B) full employment.
  - (C) price stability.
  - (D) technical efficiency.
- XIX. A strategy that is most likely to result in an outward shift of the production possibilities frontier in the long run is:
- A. reducing the hours worked per week to 30.
  - B. increasing consumption and reducing capital investment.
  - C. building more cars and fewer factories.
  - D. spending less on national defence and more on education.
- XX. An economy that is able to produce more of one good without producing less of other goods has:
- A. unemployment.
  - B. full employment.
  - C. price stability.
  - D. technical efficiency.
- XXI. 22. Justin just found a job with a take-home pay of R2 000 per month. He must pay R800 for rent and R200 for groceries each month. He also spends R200 per month on transportation. If he budgets R100, each month, for clothing, R150 for entertainment and R250 for everything else, how long will it take him to accumulate savings of R900?
- (A) 1 month
  - (B) 2 months
  - (C) 3 months
  - (D) 4 months
- XXII. 23. This refers to the quantity of a certain good or service is available for people to purchase.
- (A) supply
  - (B) demand
  - (C) price
  - (D) equilibrium

- XXIII. 24. One of the following is not true: An item that is labelled as scarce  
(A) is limited in quantity.  
(B) is desirable.  
(C) is always expensive.  
(D) usually has more than one valuable use
- XXIV. 25. The resource market is the place where:  
(A) households sell products and businesses buy products.  
(B) businesses sell resources and households sell products.  
(C) households sell resources and businesses buy resources.  
(D) businesses sell resources and households sell resources

**QUESTION TWO QUESTION ONE (25marks – 5marks per sub question)**

**You are given the following markets and events. In terms of demand, and with the aid of diagrams, explain what happens to each market under consideration**

- I. Market: counter books  
Event: The price of exercise books increases
- II. Market: Health care  
Event: There is an outbreak of a contagious disease
- III. Market: Laptop computers  
Event: Major multi-national laptop computers manufacturer enters the market.
- IV. Market: Morvite  
Event: The price cornflakes decreases
- V. Market: Nokia phones  
Event: Nokia phones go on sale

(15)

## SECTION B

Answer any TWO questions

### QUESTION THREE

- a. Give a list of the determinants of demand. What happens to the demand curve when any of these determinants changes? (9)
- b. State and explain **three** exceptions to the 'Law of Demand' (6)
- c. There is an outbreak of foot-and-mouth disease in KwaZulu Natal which led to the burning of thousands of cattle carcasses. What impact do you think this had on:
  - i. the demand for chicken meat?
  - ii. the supply of cattle hides?
  - iii. hide prices?
  - iv. the supply of leather?
  - v. the price of leather goods? (10)

### QUESTION FOUR

- a) 'Inferior products have a negative Income Elasticity of Demand (YED)'. Explain this statement. (5)
- b) A consumer buys 20 units of Good A when the price of Good B is R8. When the price of Good B rises to R10 (the price of Good A remaining unchanged) the consumer buys 12 units of Good A.
  - i. Using an appropriate formula, calculate this consumer's cross elasticity of demand for Good. Is Good A a substitute for, or a complement to Good B? Explain your answer. (8)
- c) A manufacturer of three different products calculates the price elasticity of demand (PED) for each product as follows:  
Product A: -2.8 Product B: -1.0 Product C: -0.5
  - (i) The manufacturer wishes to maximise its revenues. Explain in respect of **each** of these products, what change, if any, the manufacturer should make in the prices currently being charged to enable it to achieve its aim.  
Illustrate your answers with the aid of a demand curve for **each** product (12)

### QUESTION FIVE

A firm has fixed costs of \$60 and variable costs as indicated in the table below. Complete the table. (15)

Total product	Total fixed cost	Total variable cost	Total cost	Average fixed cost	Average variable cost	Average total cost	Marginal cost
0		0					
1		45					
2		85					
3		120					
4		150					
5		185					
6		225					
7		270					
8		325					
9		390					
10		465					

- i. Graph total fixed cost, total variable cost, and total cost. Explain how the law of diminishing returns influences the shapes of the total variable-cost and total-cost curves. (5)
- ii. Graph AFC, AVC, ATC, and MC. Explain the derivation and shape of each of these four curves and their relationships to one another. Specifically, explain in nontechnical terms why (5)