

**UNIVERSITY OF FORT HARE
DEPARTMENT OF ECONOMICS**

ALICE, BHISHO AND EAST LONDON CAMPUSES

ECO 311/311E

JUNE FINAL EXAMINATION

2023

**Subject: Micro and Macroeconomics 3
Time: 3 Hours**

Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiners

Mr. Q. Mathentamo
Mr. B. Hlafa

External Examiner

Prof. L. Jeke (NMU)

Instructions

- 1. Answer all questions in section A.**
- 2. Answer two questions in section B.**
- 3. Section A has three questions each carrying 20 marks.**
- 4. Section B has three questions each carrying 20 marks, however, answer two questions.**
- 5. This examination carries 100 marks.**

SECTION A – Microeconomics (ANSWER ALL QUESTIONS)

QUESTION 1

Mr. Mathentamo and Mr. Hlafa are looking to buy a car. They have been searching for cars online using different automobile sites. They noticed that cars do not sell at the same price. Used cars sell much lower than new cars. They are considering buying used cars however, they are uncertain about the quality of used cars. They are afraid of buying a “lemon”.

- 1.1 Define the economic theory that you would use to explain why second-hand cars sell at a much lower price than new cars. (2)
- 1.2 Illustrate and explain why second-hand cars normally sell at a much lower price than new cars. (9)
- 1.3 Explain possible solution(s) that would limit the chances of them buying a “lemon” that is provided by the car market? (9)

Total marks 20

QUESTION 2

Puleng and Xolisa are consumers of two goods soft drinks and buns. They are also part of a market where they trade these goods with each other. They are each allocated these goods (see table below).

Consumers	Initial Allocation	Trade	Final Allocation
Xolisa	4S,2B		
Puleng	1S,10B		

- 2.1. What is this market referred to? (1)
- 2.2. How can you describe initial allocation in terms of efficiency? (1)
- 2.3. Based on initial allocation and assuming soft drinks are good x and buns are good y, what do you **suppose** would each consumer’s marginal rate substitution (MRS) of soft drink for buns be? (2) *hint: Assume MRS that are not equal. Ascertain a good that each consumer values more than the other.*
- 2.4. Based on the MRS you assumed in question 3 how would you describe their trade? (2)
- 2.5. Complete the table above by filling in the trade and final allocations of each consumer? (4)
- 2.6. Based on the complete table illustrate an initial allocation, trade, and final allocation on an Edgeworth box. Clearly label it and include indifference curves. (7)
- 2.7. Explain what is pareto efficient allocation? (1)

2.8. Looking at the complete table and the Edgeworth box do you think the final allocation is a Pareto efficient allocation? (1)

2.9. Why do you think so? (1)

Total marks 20

QUESTION 3

3.1. Name and explain different preferences towards risk. (6)

3.2. Use an example and diagrams to differentiate between risk preferences (14)

Total marks 20

SECTION C - Macroeconomic (ANSWER TWO QUESTIONS OUT OF THREE)

Question 4

4.1. Explain three types of capital. (6)

4.2. As a consumer who is interested in the housing market you spend your leisure looking for properties online. You know you cannot currently afford these houses, but this does not stop you from placing them in your Wishlist. You notice that house prices differ. There are old houses for sale and there is residential investment of new houses around your area. As someone who is interested in the housing market kindly explain how house prices and residential investment is determined. (7)

4.3. How do changes in demand for housing affect residential investment? (7) (**Assume any change in determinant and use diagrams to illustrate**)

Total marks: 20

QUESTION 5

5.1 Explain how the South African Reserve Bank should respond to aggregate demand, permanent and temporary supply shocks? (12)

5.2 Assess each response's strengths and weaknesses (8)

Total marks: 20

QUESTION 6

6.1. Compare and contrast the Solow and Endogenous growth models (20)

Total marks: 20

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