

UNIVERSITY OF FORT HARE
DEPARTMENT OF ECONOMICS

ALICE AND EAST LONDON CAMPUSES

ECO 211/ ECO 211E

MAIN EXAMINATION: 2023

Time: 3 Hours

Subject: Economics 2- Microeconomics

Marks: 100

This paper consists of 12 pages including the cover page

Internal Examiners

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Mr M. Tshaka

Internal Moderator

Mrs D. Hunter

Instructions

The Question Paper has TWO sections: Section A and Section B

Section A is compulsory. Choose any THREE questions from Section B.

Complete the MCQ table and ensure that it is submitted with the Answer Script

SECTION A

[25 Marks]

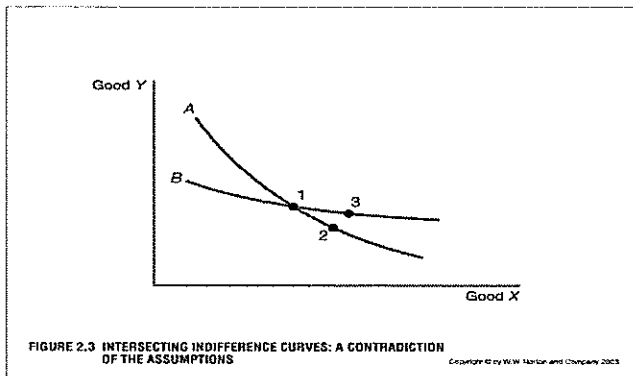
Multiple Choice Question One - (Compulsory Question)

Instruction: Indicate the MOST Correct Answer on the Answer Sheet Provided.

QUESTION 1

1. An indifference curve is a
 - a. collection of market baskets, each of which is equally desirable to the consumer.
 - b. collection of market baskets that the consumer can buy.
 - c. curve whose elasticity is constant for every price.
 - d. curve that passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.
 - e. collection of market baskets that cost the same amount.

2. Optimal bundle in the diagram below is illustrated by point



- a. A and B
- b. 1
- c. 2
- d. All of the above
- e. None of the above

3. An indifference curve that is vertical indicates that the consumer derives
 - a. no happiness from additional units of the good on the vertical axis.
 - b. no happiness from additional units of the good on the horizontal axis.
 - c. no happiness from additional units of either good.
 - d. additional happiness from additional units of both goods.
 - e. none of the above

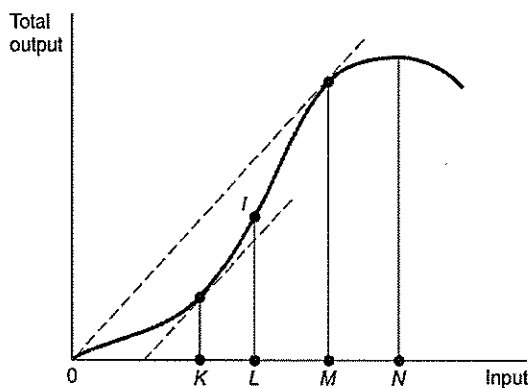
4. The assumption of transitive preferences means that indifference curves
 - a. cannot be positively sloped.
 - b. cannot cross.
 - c. cannot be L-shaped.
 - d. cannot be straight lines.

5. Monotonicity means that
 - a. More is preferred to less
 - b. less is preferred to more
 - c. a consumer derives the same satisfaction
 - d. indifference curves cannot cross
 - e. Indifference curves cannot be thick

6. If the prices of both goods increase by the same percent, the budget line will
 - a. shift parallel to the left.
 - b. shift parallel to the right.
 - c. pivot about the x axis.
 - d. pivot about the y axis.
 - e. none of the above

7. A fixed input is an input
 - a. whose quantity can be changed in the short run but not in the long run.
 - b. whose quantity can be changed in the short run or in the long run.
 - c. whose quantity cannot be changed in the short run.
 - d. restored to sound condition after damage or injury.
 - e. that has been fully depreciated.

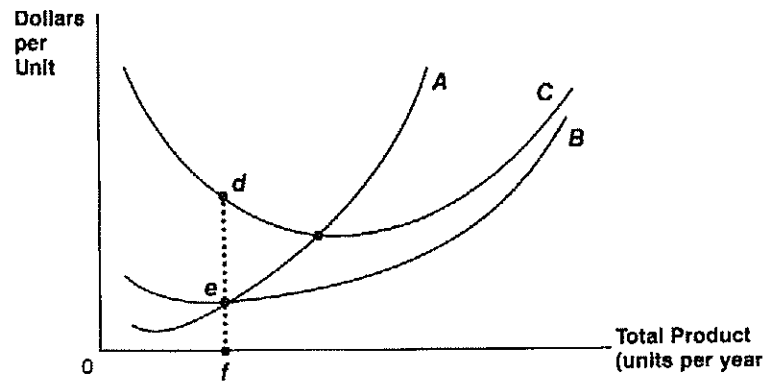
8. Decisions are made in either the short run or the long run. In economics, the short run is a period
- of less than one year.
 - between one year and five years.
 - of time in which something about the firm's production process cannot be changed.
 - in which the firm can vary any of its inputs.
 - None of the above.
9. When the marginal product of a variable input is greater than the average product of that input, we know that
- total product is constant.
 - average product is rising.
 - marginal product is rising.
 - average product is falling.
 - average product equals marginal product.
10. Assume that the dashed lines are parallel and that their common slope is equal to b . Moreover, assume that I is an inflection point on the total product curve.



- At what level of the variable input do diminishing marginal returns begin to set in?
- K
 - L
 - M

- d. N
- e. None; the production function does *not* exhibit diminishing marginal returns

When answering the next 3 questions (11-13), refer to the graph below:

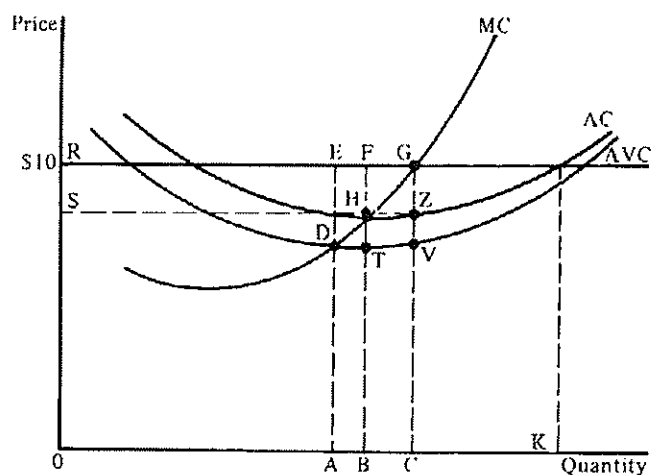


11. Line B represents
 - a. marginal cost.
 - b. average variable cost.
 - c. average fixed cost.
 - d. average total cost.

12. The vertical difference, at any level of output, between lines B and C represents
 - a. marginal cost.
 - b. average variable cost.
 - c. average total cost.
 - d. average fixed cost.

13. When output equals Of ,
 - a. total cost equals Of times fe .
 - b. fixed cost equals Of times fe .
 - c. total variable cost equals Of times fe .
 - d. marginal cost equals ed .

When answering the next 5 questions (14-18), refer to the graph below:



14. Assume price is \$10. The profit maximizing level of output for the firm is
- 0A where marginal cost just covers AVC.
 - 0B where average profit per unit is the greatest.
 - 0C where marginal cost equals the \$10 price.
 - 0K where average cost equals average revenue and the firm earns a normal rate of return.
15. At the profit maximizing level of output, when price is \$10,
- the firm X is earning economic profit.
 - profits per unit are the greatest.
 - average variable cost equals ZC.
 - all of the above.
16. At output level 0C, profit per unit is equal to
- GZ.
 - ZV.
 - ED.
 - GC.
17. At output level 0C, total profits equal

- a. FHSR.
- b. OSZC.
- c. GZSR.
- d. ORGC.

18. At output level OC , average fixed cost is equal to

- a. ZV .
- b. GZ .
- c. ED .
- d. VC .

19. A monopolistically competitive market is characterized by all of the following **except**

- a. easy entry.
- b. differentiated products.
- c. excess capacity.
- d. economic profit in the long run.

20. An oligopolistic industry can be characterized by all of the following **except**

- a. many sellers.
- b. mutual interdependence.
- c. economies of scale.
- d. a homogenous product.

21. The kinked demand curve faced by an oligopolist is based on the assumption that

- a. rivals will follow a price increase but not a price cut.
- b. rivals will follow a price decrease but not a price increase.
- c. rivals will follow both a price decrease and a price increase.
- d. rivals will ignore both a price increase and a price decrease.

22. A common criticism of the kinked demand curve model is that

- a. it does not explain the interdependence of the demand curve.

- b. it does not explain why costs remain rigid in the face of changing demand.
 - c. it does not explain how price was determined.
 - d. none of the above.
23. Which of the following does NOT characterize monopolistic competition?
- a. Product differentiation.
 - b. Many producers.
 - c. Absence of advertising.
 - d. Some control over price.
 - e. All of the above characterize monopolistic competition
24. Product differentiation gives each seller a small amount of monopoly power because
- a. little or nothing can be said concerning the social desirability or undesirability of product differentiation.
 - b. there can be little substitution between product groups.
 - c. the products of other firms are not perfect substitutes.
 - d. the presence of excess capacity greatly reduces monopoly power.
 - e. the monopolistic competitor faces a downward sloping demand curve.
25. A monopolistically competitive firm differs from a perfectly competitive firm in that, unlike the perfectly competitive firm, it
- a. faces a downward sloping demand curve.
 - b. can change the characteristics of its product.
 - c. can vary the price of its product.
 - d. tends to operate with excess capacity.
 - e. all of the above.

/25/

SECTION B**[75 Marks]****ANSWER ANY THREE QUESTIONS****QUESTION 2**

- a) Draw graphs with peanuts on the vertical axis and chocolate on the horizontal axis, and illustrate and explain the following situations:
- i. Thabo hates peanuts and hates chocolate. (3)
 - ii. Nandipha hates chocolates and loves peanuts. (3)
 - iii. Both peanuts and chocolates are perfect substitutes. (3)
 - iv. Nandipha likes peanuts. However, she does not mind how many chocolates she consumes. Chocolates are neutral goods. (3)
 - v. Peanuts and chocolates are perfect complements. (3)
- b) Illustrate the difference between Isocost and isoquants in the theory of production (10) **/25/**

QUESTION 3

- a) Assume that good X is a normal good, illustrate and explain the income and substitution effects for an increase in the price of good X. [13 Marks]
- b) Illustrate and explain what is meant by Pareto efficiency in exchange/consumption. (12 marks) **/25/**

QUESTION 4

- a) Illustrate and explain how a monopoly adjusts its output to obtain profits in the long run. (12 marks)
- b) Illustrate and explain what is meant by an increasing cost industry. (13 marks)

/25/**QUESTION 5**

- a) Illustrate diagrammatically and explain how the Engel curve for an inferior good and a Backward Bending Engel Curve is derived from a two-good consumer equilibrium diagram. (15)

b) Define the following terms

- (i) Economic Profit (2 marks)
- (ii) Marginal Cost (2 marks)
- (iii) Total Product (2 marks)
- (iv) Break-even point (2 marks)
- (v) Marginal Rate of Technical Substitution (MRTS)

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ECO 211/211E Main Examinations 2023 – MCQ – Answer Sheet

Note: 1) Make sure that this page is submitted with the answer script.

2) Indicate the CORRECT ANSWER with a Cross “X”.

Student

Surname:.....

Student

Name:.....

Student Number

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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
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25	A	B	C	D	E