

UNIVERSITY OF FORT HARE
DEPARTMENT OF ECONOMICS

ALICE, BHISHO AND EAST LONDON CAMPUSES

ECO 311/311E

SUPPLEMENTARY JULY 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 FIVE (5) questions ONLY.
2. All questions carry EQUAL marks.

QUESTION 1

1.1 Give four reasons and explain why competitive markets fail. (20)

Total marks 20

QUESTION 2

2.1. You are out with your friends for lunch in a restaurant that has a nice view. One of your friends has an expensive phone that takes nice pictures for the 'Gram'. You all use this phone. You also notice that your friend does not look after her phone as she/he leaves it unattended when she/he steps away from your table. You warn her/him about her/his conduct, and she/he replies as follows: "don't worry it's insured".

2.1.1. Define and explain an economic problem you observe from her reply? (3)

2.1.2. How would you illustrate this problem using a diagram? (7)

2.2. You are at home for the holidays. You are watching the news with your family. Statistics' South Africa (Stats SA) Quarterly Labour Force Survey is out and is being reported on the news. Responding to the news caster's comment on high unemployment rate in South Africa, one of your family members ask why does unemployment exists when there is wage discrimination?

2.2.1. Define an economic theory that you would use to explain existence of unemployment and wage discrimination? (3)

2.2.2. With an aid of a diagram explain this economic theory to your family member so that he/she understands why there is unemployment and wage discrimination. (7)

Total marks 20

QUESTION 3 ✓

3.1 Using 3 examples, explain what is meant by the principal-agent problem. (Hint: make sure that you are able to discuss these examples in detail). (20)

Total marks 20

QUESTION 4 ✓

4.1. The theory of the Real Business Cycle (RBC) argues that fluctuations in output and employment are optimal responses to shocks in the economy. Discuss the RBC assumptions and critique each assumption. Use practical examples to demonstrate your understanding.

(20)

Total marks 20

QUESTION 5 ✓

5.1. Explain the Permanent Income Hypothesis (PIH) of Friedman and the Life Cycle Hypothesis (LCH) of Modigliani. What are the differences and similarities between these two theories? In what way is the PIH distinctly neoclassical? What do these theories imply about the sensitivity of (current) consumption and changes in (current) income? Why? **(20)**

Total marks 20

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