UGANDA MARTYRS UNIVERSITY

NKOZI

UNIVERSITY EXAMINATIONS

FACULTY OF SCIENCE

DAPARTMENT OF ECONOMICS

END OF SEMESTER ONE FINAL ASESSMENT

Micro – Economics I

ECO 1101

DATE: Friday, December 05, 2014

TIME: 09:30 AM – 12:30PM

Instructions:

1. Sections **A** is compulsory
2. Answer **THREE** questions from Section B
3. Do not write anything on the questions paper.
4. Carefully read through ALL the questions before attempting.
5. No **names** should be written anywhere on the examination book.
6. Ensure your work is **clear** and **readable**. Untidy work shall be penalized.
7. Any type of examination Malpractice will lead to automatic disqualification.
8. Ensure that your **ID number** is indicated on all pages of the examination answer booklet.

SECTION: A (Compulsory)

*For the following questions 1 – 25, select the **BEST** alternative*

1. Microeconomic theory studies how a free-enterprise economy determines
   (a) the price of goods
   (b) the price of services
   (c) the price of economic resources
   (d) all of the above.
2. Which of the following statements is most closely associated with general equilibrium analysis?
   (a) Everything depends on everything else.
   (b) Ceteris paribus.
   (c) The equilibrium price of a good or service depends on the balancing of the forces of demand and supply for that good or service.
   (d) The equilibrium price of a factor depends on the balancing of the forces of demand and supply for that factor.
3. When an individual's income falls (while everything else remains the same), that person's demand for an inferior good
   (a) increases
   (b) decreases
   (c) remains unchanged
   (d) we cannot say without additional information.
4. If, from a position of stable equilibrium, the market supply of a commodity decreases while the market demand remains unchanged
   (a) the equilibrium price falls
   (b) the equilibrium quantity rises
   (c) both the equilibrium price and the equilibrium quantity decrease
   (d) the equilibrium price rises but the equilibrium quantity falls.
5. If the quantity of a commodity demanded remains unchanged as its price changes, the coefficient of price elasticity of demand is
   (a) greater than 1
   (b) equal to 1
   (c) smaller than 1
   (d) zero.
6. Arc elasticity gives a better estimate of point elasticity of a curvilinear demand curve as
   (a) the size of the arc becomes smaller
   (b) the curvature of the demand curve over the arc becomes less
   (c) both of the above
   (d) neither of the above.
7. If a straight-line demand curve is tangent to a curvilinear demand curve, the elasticity of the two demand curves at the point of tangency is
   (a) the same
   (b) different
   (c) can be the same or different
   (d) it depends on the location of the point of tangency.
8. If the amount of a commodity purchased remains unchanged when the price of another commodity changes, the cross elasticity of demand between them is
   (a) negative
   (b) positive
   (c) zero
   (d) 1.
9. If the MU of the last unit of X consumed is twice the MU of the last unit of Y consumed, the consumer is in equilibrium only if
   (a) the price of X is twice the price of Y
   (b) the price of X is equal to the price of Y
   (c) the price of X is one half of the price of Y
   (d) any of the above is possible.

10. The statement C=D=10 utils implies
(a) an ordinal measure of utility only
(b) a cardinal measure of utility only
(c) an ordinal and a cardinal measure of utility
(d) none of the above.

11. If the Marginal Rate of Substitution (MRSxy) for individual A exceeds the MRSxy for individual B, it is possible for individual A to gain by giving up
(a) X in exchange for more Y from B
(b) Y in exchange for more X from B
(c) either X or Y
(d) we cannot say without additional information.

12. The price-consumption curve for a straight-line demand curve extended to both axes
(a) falls throughout
(b) rises throughout
(c) falls and then rises
(d) rises and then falls.

13. The substitution effect for a fall in the price of a commodity (ceteris paribus) is given by
(a) a movement up a given indifference curve
(b) a movement from a higher to a lower indifference curve
(c) a movement down a given indifference curve
(d) any of the above.

14. When the Total Product (TP) falls
(a) the Average Product (AP) of Labor is zero
(b) the Marginal Product (MP) of Labor is zero
(c) the Average Product (AP) of Labor is negative
(d) the Average Product (AP) of Labor is declining.

15. If, by increasing the quantity of labor used by one unit, the firm can give up 2 units of capital and still produce the same output, then the Marginal Rate of Technical Substitution (MRTS) between Labor and Capital is
(a) 12
(b) 2
(c) 1
(d) 4.

16. If we plot capital on the vertical axis and labor on the horizontal axis, the slope of a straight-line isocost drawn on such a graph is
(a) Price of Labor (PL) /Price of Capital (PK)
(b) Price of Capital (PK) / Price of Labor (PL)
(c) 2(Price of Labor /Price of Capital)
(d) 2(Price of Capital / Price of Labor)

17. At the point of producer equilibrium
(a) the isoquant is tangent to the isocost
(b) the $MRTS_{LK}$ equals (Price of Labor /Price of Capital)
(c) MPL/PL = MPK/PK
(d) all of the above.

18. If we have constant returns to scale and we increase the quantity of labor used per unit of time by 10% but keep the amount of capital constant, output will
(a) increase by 10%
(b) decrease by 10%
(c) increase by more than 10%
(d) increase by less than 10%.

19. An entrepreneur running a business takes out $20,000/year as "salary" from the total receipts of the firm. The implicit cost of this entrepreneur is
(a) $20,000/year
(b) more than $20,000/year
(c) less than $20,000/year
(d) any of the above is possible.

20. If only part of the labor force employed by a firm can be dismissed at any time and without pay, the to wages and salaries paid out by the firm must be considered
(a) a fixed cost
(b) a variable cost
(c) partly a fixed and partly a variable cost
(d) any of the above.
21. When the law of diminishing returns begins to operate, the TVC curve begins to
(a) fall at an increasing rate
(b) rise at a decreasing rate
(c) fall at a decreasing rate
(d) rise at an increasing rate.
22. The MC curve reaches its minimum point before the AVC curve and the AC curve. In addition, the MC curve intersects the AVC curve and the AC curve at their lowest point. The above statements are both true.
(a) Always (b) never (c) often (d) sometimes.
23. At the point where a straight line from the origin is tangent to the TC curve, AC
(a) is minimum (b) equals MC (c) equals AVC plus AFC (d) is all of the above.
24. If the Long run Average Cost (LAC) curve falls as output expands, this is due to
(a) economies of scale
(b) the law of diminishing returns,
(c) diseconomies of scale
(d) any of the above.
25. When $\alpha = \frac{3}{4}$ and $\beta = \frac{1}{4}$ for the Cobb-Douglas production function, returns to scale are
(a) constant
(b) increasing,
(c) decreasing
(d) first increasing and then decreasing.

SECTION B (75 MARKS)

*Attempt any **THREE** questions in this section*

Question 26

(a) Clearly explain the difference between the following economic concepts with illustration(s)

(i) Change in quantity supplied and change in supply (06Marks)

(ii) Price ceiling and price floor (06Marks)

(b) Given the following demand and supply functions; $Q_d = 500 - 3P$ and $Q_s = 100 + 5P$.

(i) Find the equilibrium price and quantity. (05Marks)

(ii) Find the consumer's and producer's surplus. (04Marks)

(iii) Supposing that price is fixed at $40. State whether it is a price floor or price ceiling and determine the type and size of the imbalance created. (04Marks)

Question 27

(a) What is cross elasticity of demand? (02Marks)

(b) With reasons, state the likely price elasticity of the following commodities

(i) Beer (03Marks)

(ii) Medical services (03Marks)

(c) (i) Explain the causes of high price elasticity of demand for commodities in an economy. (07Marks)

(ii) Explain the practical application of the concept of price elasticity of demand to the producer and to the government. (10Marks)

Question 28

(a) Write short notes on the following;

(i) Price consumption curve (05Marks)

(ii) Marginal rate of substitution (05Marks)

(b) (i) Explain the assumptions underlying the ordinal utility theory of consumer behaviour. (06Marks)

(ii) Explain how a demand curve is derived under the cardinal utility theorem (09Marks)

Question 29

(a) What is a production function? (03Marks)

(b) Briefly explain the properties of an Isoquant. (10Marks)

(c) Given the following table showing production of maize at a given period in time,

Labour	0	10	20	30	40	50	60	70	80	90	100
Output	0	20	50	90	140	140	170	190	200	190	170

(i) Obtain the marginal product schedule. (04Marks)

(ii) Obtain the average product schedule. (03Marks)

(iii)What is the intensive margin input level? (03Marks)

(iv)At what labour input level does diminishing marginal productivity set in? (02Marks)

Question 30

(a) Define and give examples of the following

(i) Cartels (03Marks)

(ii) Oligopoly markets (03marks)

(iii)Price discrimination (03Marks)

(b) Explain the features of a perfectly competitive market. (06Marks)

(c) What are the advantages and disadvantages of price discrimination? (10Marks)

******** Merry Christmas ********