

UGANDA MARTYRS UNIVERSITY

FACULTY OF SCIENCE

Micro Economics

Year one

UNIVERSITY EXAMINATIONS

END OF SEMESTER ONE 2012/2013

FIRST YEAR EXAMINATIONS FOR : Bachelor of Business Economics

Bachelor of Science (General)

Bachelor of Science Financial mathematics

Bachelor of Information Technology

DATE: December 2012

Time: 9.00am-12.00pm

Instructions:

Attempt any four questions.

Question one:

- (a) Critically comment on how your job as a purchasing officer might differ as a result of operating in a centrally planned economy as opposed to a competitive economy. (7 marks)
- (b) With the help of suitable diagrams, explain how the government can control prices in a mixed economy (10 marks)
- (c) State whether the following statements belong in positive economics or normative economics. (8 marks)
- (i) In a market, when quantity supplied exceeds quantity demanded, produce tends to fall.
 - (ii) When determining tax rates, the government should take into account the income needs of individuals.
 - (iii) What society feels is fair is determined largely by cultural norms
 - (iv) When deciding which rationing mechanism is best (lottery, price, first come – first served,) one must take into account the goals of society.

Question two:

- (a) Examine the factors that make the study of elasticity important in economics. (12 marks)
- (b) Given the following demand and supply functions

$$Q_d = 500 - 3p$$

$$Q_s = 100 + 5p$$

- (i) Find the elasticity of demand at the equilibrium point (10 marks)
- (ii) Using the answer in (i) above, what advice would you give to the producer if he is to increase revenue? (3 marks)

Question three

- (a) An entrepreneur should put into consideration several factors that can cause change in demand or change in quantity demanded for a commodity when thinking of establishing a production unit. Examine any ten of such factors. (10 marks)
- (b) Under what circumstances may the law of demand be violated (7 Marks)
- (c) As a consumer how would the following types of goods affect your consumption behavior when socio-economic situations change? (8 Marks)
- i. Giffen goods
 - ii. Inferior goods
 - iii. Goods of ostentation
 - (iv) Normal goods

Question four

- (a) Distinguish between Consumer and Producer Surplus (4 marks)
(b) Use the table below to calculate the producer's surplus .Take 300/= as the market price. (11 marks)

Price (Px)	100	200	300	400	500	600	700	800
Quantity (Qx)	0	1	3	6	10	16	25	35

- (c) Examine the factors that can affect the consumer or producer surpluses (10 marks)

Question five

- (a) What makes entrepreneurship as a factor of production more superior than others (4 marks)
(b) Explain the importance of labour efficiency to an entrepreneur (8 marks)
(c) To what extent are factors of production mobile in Uganda (8 marks)
(d) What policy recommendations would you suggest to reduce regional development imbalances (5 marks)

Question six.

- (a) Present carefully the difference between the law of variable proportions and the law of returns to scale (4 marks)
(b) Discuss fully the three stages associated with the law of variable proportions (12 marks)
(c) Briefly discuss the factors which lead to increasing and decreasing returns to scale in the production process (9 marks)

Question seven

- (a) Distinguish with the help of a diagram between;
(i) Fixed ,variable and Total costs (6 marks)
(ii) Average total cost , Average total variable costs and Average fixed cost(6 marks)
(b) Why are economists interested in the study of implicit costs (3 marks)
(c) The data below shows a tabulation of the production of a hypothetical product

Output(Q) units	0	1	3	4	5	6	7	8
Total costs	25	32	38	48	58	67	78	98

Using the above data, determine

- (i) Total fixed cost (1 mark)
(ii) Average variable cost when output is equal to 6 units (2 marks)
(iii) Marginal cost of the 3rd unit of output (2 marks)
(d) Use the envelope curve to explain the relationship between long run and short run costs (5 marks)

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