



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART I FIRST SEMESTER EXAMINATION

MODULE: MICROECONOMICS [BAC1105]

MAY 2023

DURATION: 3 HOURS

Lecturer: Mr R. Muneri

INSTRUCTIONS

1. Answer section A and choose any three questions from section B.
2. Begin your answer to each question on a new page.
3. Please indicate the study format (Conventional/Block/Parallel) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of eight printed pages including the cover page

SECTION A: Multiple Choice Question (Compulsory) 25 Marks

All questions under this section carry 2 marks except question 13 that carries 1 mark.

1. Which of the following statements about factors of production is false?
 - a) The term 'factors of production' is another term for resources.
 - b) The factor of production termed labour means human resources.
 - c) The factor of production termed land means natural resources.
 - d) The factor of production termed capital means the money which the owners of firms need in order to set their firms up.

2. Which of the following will not shift a country's production possibility frontier?
 - a) A fall in unemployment.
 - b) An increase in the age at which people retire.
 - c) The introduction of improved technology.
 - d) Purchases of new capital by firms.

3. If oil producers expect that oil prices next year will be lower than oil prices this year, they are most likely to
 - a. Hold some oil off the market this year, thus shifting the present supply curve of oil leftward
 - b. Place more oil on the market this year, thus increasing the quantity supplied of oil at lower but not higher prices.
 - c. Place more oil on the market this year, thus shifting the present supply curve of oil rightward.

- d. Hold some oil off the market this year, thus decreasing the quantity supplied of oil at lower but not higher prices.
4. Which of the following types of economy describes the Zimbabwean economy?
- a. A command economy.
 - b. A market economy.
 - c. A mixed economy.
 - d. A planned economy.
5. Suppose the price of a product increases from £12 to £20 and the quantity demanded falls from 55 a week to 45. What is the PED?
- a. 0.4
 - b. -0.4
 - c. 2.5
 - d. -2.5
6. In the long run, a firm
- a. can vary all inputs, but it cannot change the mix of inputs it uses
 - b. has no fixed factors of production
 - c. can shut down, but it cannot exit the industry
 - d. must make positive economic profits
7. A good will tend to have a low price elasticity of demand if
- a. It has few substitutes.
 - b. A person spends a high percentage of his or her budget on it.
 - c. A person has a long period of time to adjust to price changes.
 - d. The good is expensive.
8. A good will tend to have a low price elasticity of demand if
- a. It has few substitutes.
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 - c. A person has a long period of time to adjust to price changes.

- d. The good is expensive.
9. In long-run competitive equilibrium, firms
- Earn positive economic profits.
 - Have no incentive to make any changes.
 - Earn losses on some units of the good they produce and sell.
 - Do not produce the quantity of output at which $MR = MC$.
10. When an economist talks about utility, she is talking about
- A company that provides electricity, water, gas, etc.
 - The satisfaction, in terms of price, that a producer receives from selling his product.
 - The satisfaction that results from the consumption of a good.
 - The amount of one good that a person is willing to give up in order to get a unit of another good.
11. To see whether a firm is making an economic profit, which of the following should be deducted from its revenue?
- Its explicit costs only.
 - Its explicit costs plus depreciation.
 - Its implicit costs only.
 - explicit costs and its implicit costs
12. Suppose a consumer is purchasing Coke (c) and pretzels (p) in quantities such that he is achieving consumer equilibrium. Then the price of Coke increases. Which of the following will be true?
- $MUC/PC = MUP/PP$
 - $MUC/PC > MUP/PP$
 - $MUC/PC < MUP/PP$
 - We cannot say for certain what will happen to the MUC/PC relative to the MUP/PP .
13. The 3 economic fundamental question are; how to produce? When to produce? And for whom to produce?
- True
 - False

SECTION B

Answer any 3 Questions from this section

Question 1 (25 Marks)

- State the three economic fundamental questions? (3 Marks)
- With the aid of a clearly labelled PPF, explain scarcity, choice and opportunity (4 Marks)
- Clearly explain the two fallacies that business and economic analysts need to avoid when making economic analysis (4 Marks)
- Giving examples, clearly differentiate between positive and normative statements in economics (4 Marks)
- With the aid of a diagram, explain the impact of an increase in demand coupled with a decrease in supply on equilibrium price and quantity (6 Marks)
- Explain how the market adjusts from excess demand to equilibrium (4 Marks)

Question 2 (25 Marks)

- Given the demand schedule below

	Price \$	Quantity demanded	Quantity supplied
A	7	1 200	4 800
B	6	1 800	4 200
C	5	2 400	3 600
D	4	3 000	3 000
E	3	3 600	2 400

F	2	4 200	1 800
G	1	4 800	1 200

- i. Identify the equilibrium price and quantity **(2 Marks)**
- ii. Calculate the surplus or a shortage that exist at the following price: \$6, \$2 **(4 Marks)**

b) Given the following Supply and demand equations:

$$Q_s = 40 + 2P$$

$$Q_d = 100 - 2P$$

- i. Calculate the equilibrium price and equilibrium quantity **(4 Marks)**
- ii. Calculate the extend of the shortage at price of \$5 **(2 Mark)**
- iii. Calculate consumer surplus at equilibrium price **(3 Mark)**
- iv. Calculate producer surplus at the equilibrium prices **(3 Marks)**
- v. Suppose the price changes from \$10 to \$12, calculate the price elasticity entailed by the above demand equation **(5 Marks)**
- vi. Comment on your answer in (v) above **(2marks)**

QUESTION 3 (25 Marks)

- a) Define utility **(2 Marks)**
- b) Distinguish between cardinal and ordinal utility approaches to demand theory **(4 Marks)**
- c) With the aid of diagrams, explain the relationship between Total Utility and Marginal Utility **(6 Marks)**
- d) With the aid of a clear example, explain the concept of Diminishing Marginal Utility **(5 Marks)**
- e) Given the following information

	Coffee Price= \$6	Tea price=\$4
Quantity	Marginal Utility (Utils)	Marginal Utility (Utils)
1	30	48
2	24	40
3	18	32
4	12	16
5	6	12

The consumer's income is \$28.

How many cups of tea and coffee will the consumer take to maximize utility? *Show calculations and workings (8 Marks)*

QUESTION 4 (25 Marks)

- a) With reference to the theory of cost, explain the following costs concepts and give example of each.
 - i. Fixed costs. (2 Marks)
 - ii. Variables costs. (2 Marks)
 - iii. Explicit cost. (2 Marks)
 - iv. Implicit cost. (2 Marks)
- b) Differentiate between accounting profit and economic profit. Which of the two is likely to be higher than the other (4 Marks)
- c) With the aid of a diagram, explain the relationship between average cost and marginal cost (5)
- d) When should a firm shut down in the short-run? (2 Marks)
- e) Complete the cost table below. (6 Marks)

Output	TFC	TVC	TC	MC	ATC
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16	320	160	480		
40		320			
60		480			
72		640	960		
80		800	1 120		
84			1 280		
82			1 440		

END OF EXAMINATION PAPER

GOOD LUCK!