



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART I FIRST SEMESTER EXAMINATION

MICRO ECONOMICS [BAC1105]

JUNE 2025

INSTRUCTIONS

1. Answer **all** questions in **Section A**, and any **three** questions from **Section B**.
2. Begin each question on a new page.
3. Show all your workings.

INFORMATION

1. Questions may be answered in any order
2. You may use a scientific calculator.

This paper consists of 6 printed pages including cover page

SECTION A COMPULSORY (Answer all questions) [40 marks]

Each question carries 2 marks

1. What does an outward bowing Production Possibilities Frontier (PPF) indicate?
 - a) Constant opportunity costs
 - b) Increasing opportunity costs
 - c) Decreasing opportunity costs
 - d) Zero opportunity costs

2. The Zimbabwean economy recently experienced hyperinflation. This scenario best illustrates:
 - a) Technical efficiency
 - b) Allocative inefficiency
 - c) Economic efficiency
 - d) Productive efficiency

3. In a perfectly competitive market, a firm's marginal revenue:
 - a) Equals price
 - b) Is less than price
 - c) Is greater than price
 - d) Has no relationship with price

4. The cross-price elasticity of demand between coffee and tea is positive. This means they are:
 - a) Complementary goods
 - b) Substitute goods
 - c) Normal goods
 - d) Inferior goods

5. How are utils defined under cardinal utility theory, utils are:
 - a) Ordinal measurements
 - b) Absolute measurements
 - c) Relative measurements
 - d) Nominal measurements

6. The law of diminishing marginal returns applies in:
 - a) The very long run
 - b) The long run
 - c) The short run
 - d) All time periods

7. A firm's economic profit:
 - a) Is always higher than accounting profit
 - b) Is always lower than accounting profit

- c) Is equal to accounting profit
 - d) Could be higher or lower than accounting profit
8. Which statement is accurate about the behaviour of firms in monopolistic competition, in the long run?
- a) Make normal profits
 - b) Make super-normal profits
 - c) Make losses
 - d) May exit the industry
9. What does the kinked demand curve model explain?
- a) Price rigidity in oligopolistic markets
 - b) Perfect competition
 - c) Monopolistic competition
 - d) Pure monopoly
10. Which statement is correct about the marginal productivity theory of distribution?
- a) Factors are paid exactly their marginal product
 - b) Factors are paid more than their marginal product
 - c) Factors are paid less than their marginal product
 - d) Factor payments are unrelated to marginal product
11. When a firm experiences economies of scale:
- a) Long-run average cost rises
 - b) Long-run average cost falls
 - c) Long-run average cost remains constant
 - d) Long-run marginal cost equals average cost
12. Which definition best defines the income effect of a price change?
- a) Always works in the opposite direction to the substitution effect
 - b) Always works in the same direction as the substitution effect
 - c) May work in either direction
 - d) Has no relationship with the substitution effect
13. When does the natural monopoly occur?
- a) There are significant economies of scale
 - b) Government grants exclusive rights
 - c) A firm owns all natural resources
 - d) Perfect competition fails
14. In the Ricardian theory of rent which statement is true?
- a) Only the most fertile land earns rent
 - b) Only the least fertile land earns rent

- c) All land except the least fertile earns rent
 - d) All land earns the same rent
15. The loanable funds theory suggests interest rates are determined by:
- a) Central bank policy only
 - b) Supply and demand for loanable funds
 - c) Government regulation
 - d) International markets only
16. When analyzing oligopolistic behavior using game theory, when does a Nash equilibrium occur?
- a) When all firms maximize industry profits
 - b) When no firm can benefit by unilaterally changing its strategy
 - c) When all firms cooperate perfectly
 - d) When the market reaches perfect competition
17. What does the Coase theorem, relating to externalities, suggest?
- a) That Government intervention is always necessary
 - b) That private bargaining can solve externality problems if transaction costs are zero
 - c) That externalities can never be resolved through market mechanisms
 - d) That property rights are irrelevant in solving externalities
18. In the context of consumer theory, a Giffen good is characterized by:
- a) A positive price elasticity of demand
 - b) A negative income elasticity of demand
 - c) Both price and income elasticity being positive
 - d) Being an inferior good with an upward sloping demand curve
19. Under what circumstances is the concept of X-inefficiency, developed by Harvey Leibenstein, is most likely to occur in?
- a) Perfectly competitive markets
 - b) Monopolistic markets
 - c) Contestable markets
 - d) Regulated competitive markets
20. What does the envelope theorem in microeconomics suggest?
- a) Short-run cost curves envelope the long-run cost curve
 - b) Long-run cost curves envelope the short-run cost curves
 - c) Average cost curves envelope marginal cost curves
 - d) Total cost curves envelope variable cost curves

SECTION B Answer any (3) three questions from this section

QUESTION 2 [20 MARKS]

- a) Define market equilibrium and illustrate using a properly labeled diagram how equilibrium price and quantity are determined in a competitive market. **[4 marks]**
- b) Explain how each of the following events would affect the market equilibrium for residential housing in Zimbabwe:
- (i) A decrease in mortgage interest rates
 - (ii) An increase in the cost of building materials
 - (iii) An increase in average household income
- Use supply and demand diagrams to support your answer. **[6 marks]**
- c) The government implements a price ceiling on basic foodstuffs.
- (i) Analyze the welfare effects on consumers and producers. **[5 marks]**
 - (ii) Evaluate TWO alternative policy measures the government could use to achieve its objectives while minimizing market distortions. **[5 marks]**

QUESTION 3 [20 MARKS]

- a) With reference to the ordinal utility theory:
- (i) State THREE properties of indifference curves. **[3 marks]**
 - (ii) Explain why indifference curves cannot intersect. **[2 marks]**
- b) Using indifference curve analysis:
- (i) Demonstrate how a consumer reaches equilibrium with a given budget constraint. **[4 marks]**
 - (ii) Show the income and substitution effects for a normal good when its price falls. **[4 marks]**
- c) 'Understanding elasticity concepts is crucial for business decision-making.'
- (i) Calculate the price elasticity of demand using the following data and interpret your result:
Price: $P_1 = \$10$, $P_2 = \$12$
Quantity: $Q_1 = 100$, $Q_2 = 80$. **[3 marks]**
 - (ii) Explain how a firm can use this information for pricing strategy. **[4 marks]**

QUESTION 4 [20 MARKS]

a) Define the following concepts and explain their relationship:

- (i) Total Physical Product (TPP) [2 marks]
- (ii) Average Physical Product (APP) [2 marks]
- (iii) Marginal Physical Product (MPP). [2 marks]

b) A firm has the following short-run cost structure:

Fixed Cost = \$1000

Variable Cost = $Q^2 + 2Q$ where Q is output

(i) Derive expressions for:

- Total Cost (TC)
- Average Total Cost (ATC)
- Marginal Cost (MC). [6 marks]

(ii) At what output level does ATC reach its minimum? Show your calculations. [4 marks]

c) Critically evaluate how the concept of economies of scale influences a firm's long-run planning decisions. [4 marks]

QUESTION 5 [20 MARKS]

a) Compare and contrast the following characteristics under perfect competition and monopolistic competition:

- (i) Number of firms [2 marks]
- (ii) Nature of product [2 marks]
- (iii) Barriers to entry [2 marks]
- (iv) Price-setting ability. [2 marks]

b) Using appropriate diagrams:

(i) Show the profit-maximizing position of a monopolistically competitive firm in the short run [4 marks]

(ii) Explain why economic profits are eliminated in the long run. [4 marks]

c) 'Perfect competition leads to allocative efficiency while monopolistic competition results in excess capacity.' Evaluate this statement. [4 marks]

END OF EXAMINATION PAPER