



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

**DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT**

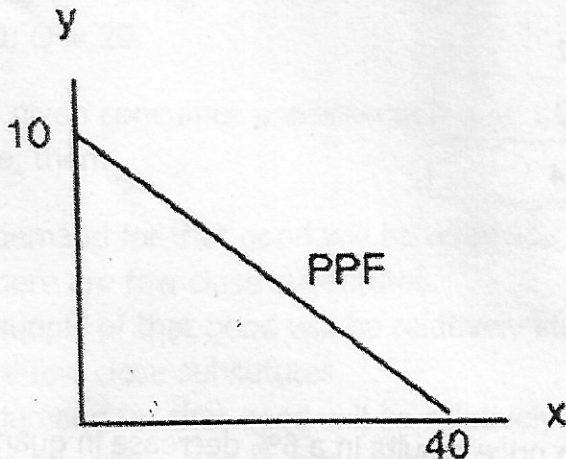
**EXAMINATION PAPER**

**COURSE CODE** : CEC 112  
**COURSE TITLE** : PRINCIPLES OF MICROECONOMICS  
**DURATION** : 3 Hours  
**LEVEL** : 1.1  
**DATE** :

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer **ALL QUESTIONS** in section **A** and **B**, and **ONLY ONE** question in section **C**
3. The number of marks for each question or part question is shown in brackets [ ]
4. Graph Papers are provided where necessary.
5. Use of non-programmable calculators is allowed.
6. Show all your workings in order to gain full marks.
7. Begin each answer on a new page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

The following TWO questions refer to the PPF diagram below.



3. What is the MARGINAL cost of producing good **y**?

- a) 1/4 of a unit of **x**.
- b) 1/4 of a unit of **y**.
- c) 4 units of **x**.
- d) 4 units of **y**.

4. What is the cost of producing FOUR units of good **y**?

- a) 16 units of **x**.
- b) 4 units of **x**.
- c) 1/4 of a unit of **x**.
- d) 40 units of **x**.

5. According to marginal analysis, optimal decision-making involves:

- a) Taking actions whenever the marginal benefit is positive.
- b) Taking actions only if the marginal cost is zero.
- c) Taking actions whenever the marginal benefit exceeds the marginal cost.
- d) All of the above.

6. Kupa's marginal benefit per day from drinking coke is given in the table below. This shows that she values the first coke she drinks at \$1.20; the second at \$1.15,

SECTION A (10 questions, 1 mark)

MULTIPLE CHOICE

Marginal benefit	Cokes
\$1.20	1
\$1.15	2
\$0.95	3
\$0.60	4

- a) 1.
- b) 2.
- c) 3.
- d) 4.

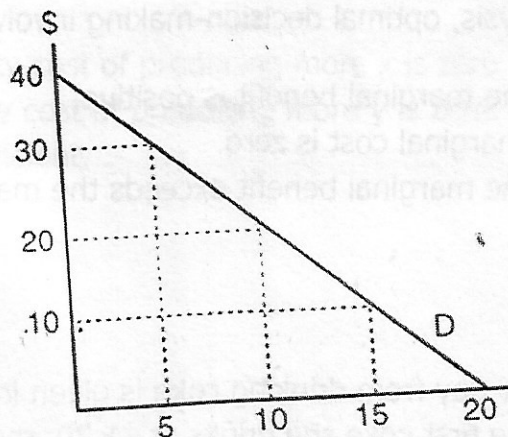
7. Suppose that a 2% increase in price results in a 6% decrease in quantity demanded. Own-price elasticity of demand is equal to:

- a) 1/3.
- b) 6.
- c) 2
- d) 3

8. If goods X and Y are COMPLEMENTS, which of the following could be the value of cross price elasticity of demand?

- a) 0.
- b) 1.
- c) -1.
- d) All of the above could be the value of cross price elasticity of demand

9. Consider the demand curve drawn below.



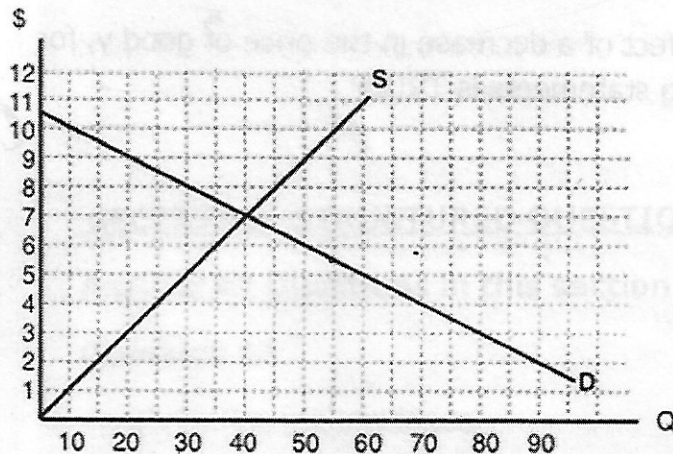
Which of the following prices and quantities is revenue maximized?

- a)  $P = 40; Q = 0.$
- b)  $P = 30; Q = 5.$
- c)  $P = 20; Q = 10.$
- d)  $P = 0; Q = 20.$

10. If – given consumer preferences – a certain good has many close substitutes available, then:

- a) The demand for that good will be relatively inelastic, compared to goods for which there are few close substitutes.
- b) The supply of that good will be relatively inelastic, compared to goods for which there are few close substitutes.
- c) The demand for that good will be relatively elastic, compared to goods for which there are few close substitutes.
- d) The supply of that good will be relatively elastic, compared to goods for which there are few close substitutes.

Use the diagram below to answer the following TWO questions.



11. If a \$6 per unit tax is introduced in this market, then the price that consumers pay will equal \_\_\_\_\_ and the price that producers receive net of the tax will equal \_\_\_\_\_.

- a) \$10; \$4.
- b) \$9; \$3.
- c) \$8; \$2.
- d) \$7; \$1.

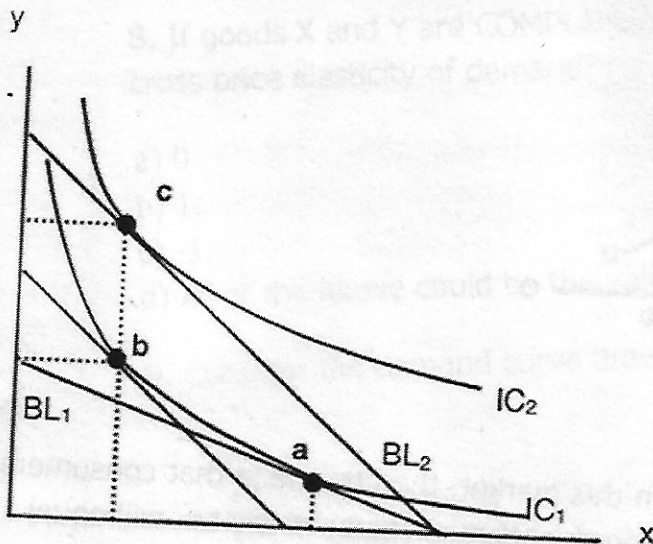
12. If a \$6 per unit tax is introduced in this market, then the new equilibrium quantity will be:

- a) 20 units.
- b) 40 units.
- c) 60 units.
- d) None of the above.

13. Suppose that, given the consumption bundle  $x = 10$  and  $y = 10$ , a consumer's MRS is equal (in absolute value) to 4. The price of  $x$  is \$1 and the price of good  $y$  is \$0.25, and the bundle  $x = 10$  and  $y = 10$  uses up all the consumer's income. The consumer's preferences are strictly convex. Which of the following is TRUE?

- a) To maximize utility the consumer should buy more  $x$  and less  $y$ .
- b) To maximize utility the consumer should buy less  $x$  and more  $y$ .
- c) The bundle  $x = 10$  and  $y = 10$  maximizes the consumer's utility.
- d) To maximize utility the consumer should buy more of both  $x$  and  $y$ .

14. The diagram below illustrates the effect of a decrease in the price of good  $y$ , for a given consumer. Which of the following statements is TRUE?



- a) Goods  $x$  and  $y$  are substitutes.
- b) Goods  $x$  and  $y$  are complements.
- c) Goods  $x$  and  $y$  are neither substitutes nor complements.
- d) None of the above statements are true.

15. Suppose that a perfectly competitive firm is currently producing 10 units of output. You also have the following additional information:

$$P = \$6; MC = \$6; AVC = \$3; ATC = \$8.$$

Given this:

- This firm should continue to produce 10 units in the short run, but should exit the industry in the long run, unless price rises.
- This firm should shut down in the short run, and exit the industry in the long run, unless price rises.
- This firm should increase its price in order to maximize profits.
- This firm should increase its output in order to maximize profits.

## SECTION B: STRUCTURED QUESTIONS

[60]

Answer All Questions in this section

### Question 16

- Define tax incidence [2 marks]
- State the two types of tax incidence [2 marks]
- Explain the effect of imposing a tax of the amount  $\$t$  per unit of good produced. [5 marks]
- With the aid of diagrams, demonstrate how elasticity determines the incidence of a tax [7 marks]
- State any two reasons for imposing a tax and any two goods liked to have a tax imposed on their production or consumption. [4 marks]

### Question 17

- Explain briefly the concept of diminishing marginal utility (DMU). [2 marks]
- Distinguish between total utility and marginal utility with the aid of examples. [6 marks]

- c) State the two schools of thoughts under utility theory and their postulations. [4 marks]
- d) What does the term 'equi-marginal principle' mean in relation to utility maximisation? [6 marks]
- e) State the two common constraints to utility maximisation. [2 marks]

### Question 18

- a) Define productive efficiency. [2 marks]
- b) With the aid of diagrams explain the relationship between marginal product and total product. [10 marks]
- c) What are isoquants [2 marks]
- d) With the aid of examples, distinguish between the isoquants for zero substitutability and for perfect substitutability. [6 marks]

[25]

### SECTION C

#### ESSAY QUESTIONS:

Answer One Question Only

#### Question 19

- a) Explain the causes of market failure. [12 marks]
- b) Evaluate the tools that may be used by the government to intervene in the market system. [13 marks]

#### Question 20

Compare and contrast perfect completion and oligopoly. Which do you think offers greater benefits to society? [25 marks]