



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**  
**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**  
**DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**EXAMINATION PAPER**

**COURSE CODE** : CEC 111  
**COURSE TITLE** : PRINCIPLES OF ECONOMICS  
**DURATION** : 3 Hours  
**LEVEL** : 1.2  
**DATE** : 27 OCT 2021

**SPECIAL REQUIREMENTS**

1. Graph Papers
2. Non-programmable calculators

**INSTRUCTIONS TO CANDIDATES:**

3. No cell phones are allowed in the examination venue.
4. Answer any **FOUR (4)** questions.
5. The number of marks for each question or part question is shown in brackets [ ]
6. Begin each answer on a new page.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

1 AM

### QUESTION ONE

- i. How does oligopoly differ from monopolistic competition? Explain your answer with practical examples, graphs and illustrations where appropriate. **[15 marks]**
- ii. Demonstrate the importance of elasticity of demand in decision-making process. **[10 marks]**

### QUESTION TWO

- (i) Explain the difference between ordinal utility and cardinal utility concepts using examples, graphs and illustrations where appropriate. **[10 marks]**
- (ii) From the cost function of a firm given below:

Output	Total Cost	Total Fixed Cost
0	60	60
1	90	60
2	100	60
3	105	60
4	115	60
5	135	60
6	180	60

Show the diagrammatic representation of the relationship between Average Fixed Cost, Average Variable Cost, Average Total Cost and Marginal Cost and interpret their relevance in production process. **[15 marks]**

### QUESTION THREE

- a. How might a rise/fall in the exchange rate (appreciation/depreciation) affect the balance of payments? **[10 marks]**
- b. Giving reference to your country what is meant by:
  - i. Balance budget **[5 marks]**
  - ii. Budget deficit **[5 marks]**
  - iii. Current account deficit **[5 marks]**

#### QUESTION FOUR

- a. Assume Zimbabwe is experiencing growth and that inflation is approaching high levels. Draw a correctly labeled graph illustrating this and discuss the best governmental measures/policies that will have an impact on this condition.

[25 marks]

#### QUESTION FIVE

- a. Explain the importance of the law of diminishing marginal returns in the production decision-making process. [10 marks]
- b. Assume a Country can produce two goods we call Food (X) and Clothing (Y). If all resources are fully utilized and allocated with maximum efficiency the Country is capable of producing efficiently food and clothing as shown below.

	OUTPUT OF Y (Clothing)	OUTPUT OF X (Food)
Combination 1	30 units	0 units
Combination 2	28 units	5 units
Combination 3	25 units	10 units
Combination 4	21 units	15 units
Combination 5	15 units	20 units
Combination 6	0 units	25 units

- i. Draw the production possibility frontier. [5 marks]
- ii. Can an output of 28 units of Y and 10 units of X per week be attained? Explain. [2 marks]
- iii. What is the opportunity cost of increasing the production of X from 10 units to 15 units per week? [3 marks]
- iv. Does the above proof that a combination of 30 units of Y and 25 units of X per week will always be beyond the potential of the above Country? [2 marks]
- v. Offer an explanation as to why Production Possibility Frontier is concaved to the origin. [3 marks]