

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 : 25 OCT 2021

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.**

2 PM

SECTION A [each question carries 1 mark]

[15]

MULTIPLE CHOICE QUESTIONS

Answer all questions in this section

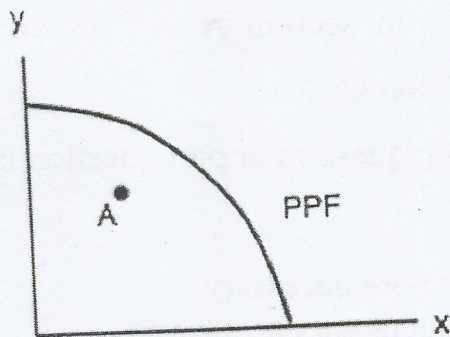
1. What is the cost of producing FOUR units of good **y**?

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

2. 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

3. The following TWO questions refer the diagram below, which illustrates the PPF for a producer of two goods, **x** and **y**.



Which of the following statements is TRUE?

- I. The marginal cost of producing **x** is higher at high levels of **x** than it is at low levels of **x**.
- II. The marginal cost of producing **y** is higher at high levels of **y** than it is at low levels of **y**.
- III. The marginal cost of producing **x** and **y** is constant in both directions of production.

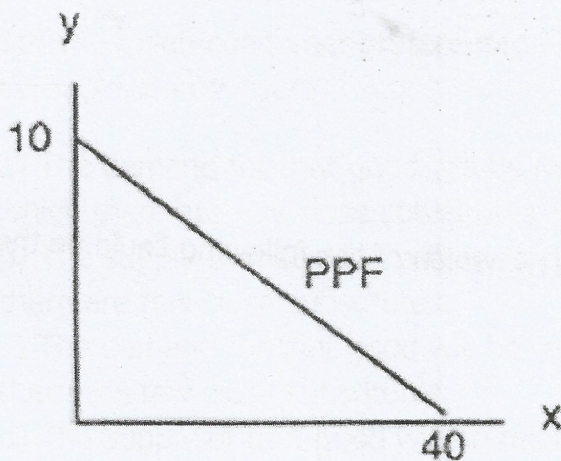
- a) I only.
- b) II only.
- c) III only.
- d) I and II only.

4. If this economy is operating at point A, which of the following statements is TRUE?

- I. The opportunity cost of producing more x is zero.
- II. The opportunity cost of producing more y is zero.
- III. Point A is inefficient.

- a) III only.
- b) I and II only.
- c) I and III only.
- d) I, II, and III.

The following TWO questions refer to the PPF diagram below.



5. 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**.

6. 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.

7. 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, and so on.

If the price of coke is \$1.00, the optimal number of cokes that Kupa should drink is:

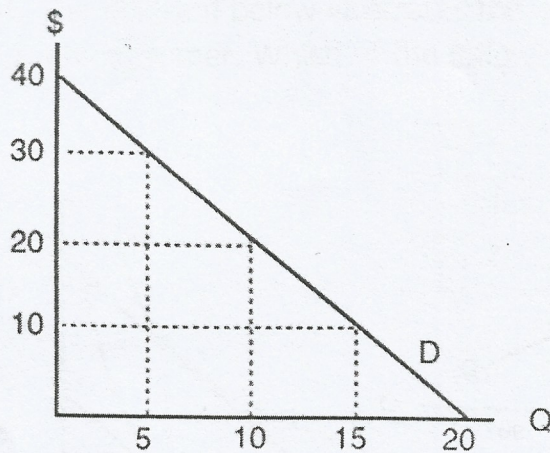
Marginal benefit	Cokes
\$1.20	1
\$1.15	2
\$0.95	3
\$0.60	4

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

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.



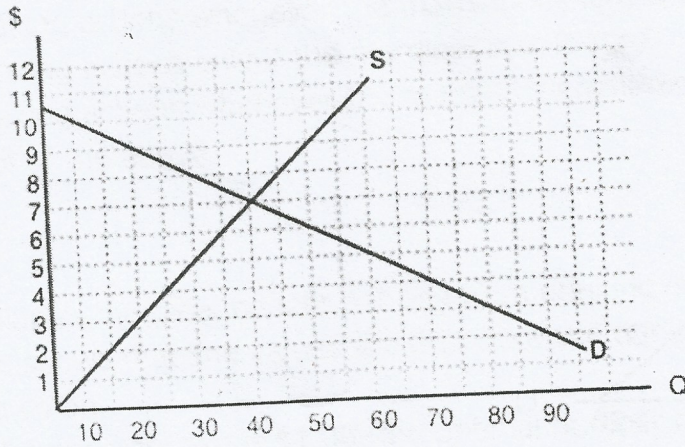
At which of the following prices and quantities is revenue maximized?

- 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.

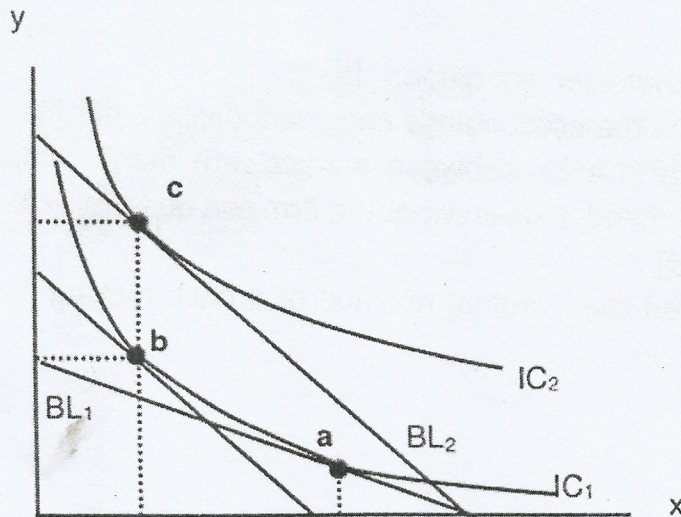
12. If a \$6 per unit tax is introduced in this market, then the new equilibrium quantity will be:

- 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:

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

SECTION B: STRUCTURED QUESTIONS

[60]

Answer All Questions in this section

Question 16

- a) Explain the firm's shutdown condition. [5]
- b) Distinguish between the accountant's and economist's profit. [5]
- c) A firm is operating in a Zimbabwean market with many competitors and is facing an elastic demand. Explain what the firm can do to raise its total revenue in this situation. [5]
- d) Distinguish between the Marginal revenue of a price making firm and a price taking firm [5]

Question 17

- a) State any **four** determinants of demand. [4]
- b) Explain how the equilibrium price and quantity are determined in a market [6]
- c) Distinguish between a change in demand and a change in quantity demanded. [4]
- d) Explain what is meant by effective price ceiling and its possible effects. [6]

Question 18

- a) What are sunk costs? [2]
- b) Distinguish between variable costs and fixed costs of production. [4]
- c) What are economies and diseconomies of scale? [6]
- d) Explain the relationship between Total product and Marginal product. [8]

SECTION C

[25]

ESSAY QUESTIONS:

Answer One Question Only

Question 19

- a) Explain the concepts of elasticity. [10]
- b) How useful are the concepts of elasticity to a producer of maize and the government of Zimbabwe [15]

Question 20

The Zimbabwe Economic Structural Adjustment program (ESAP) of 1990 advocated for market liberalisation which means it favours the market economy as opposed to the command economy. What could be the benefits to be realized by Zimbabwe of adopting ESAP? [25]