



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 : 09 FEB 2022

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.**

SECTION A [each question carries 1 mark]

[15]

MULTIPLE CHOICE QUESTIONS

Answer all questions in this section

1. A local airline charges \$500 to fly (round-trip) to Victoria Falls from Harare. Over the past three months, while the \$500 fare has been in effect each of the two daily flights have averaged 10 passengers. During last winter, the carrier ran a sale and charged \$300 for a round-trip to Victoria falls; during the six weeks of the sale, the airline averaged 20 passengers per flight. What is the coefficient of price elasticity?

- a. 0.76
- b. 1.00
- c. 1.20
- d. 1.33

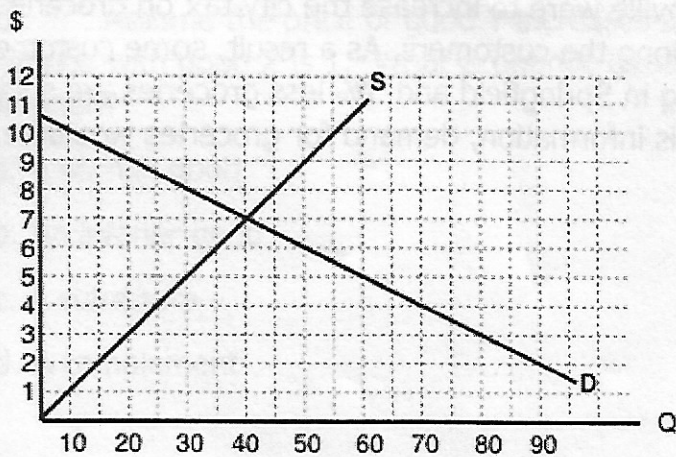
2. Which of the following is a determinant of the price elasticity of demand?

- a. Whether a luxury or necessity
- b. Price of complements
- c. Number of consumers
- d. All of the above are

3. 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.



4. 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.

5. 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.

6. The own price elasticity of demand is calculated as:

- a. $\% \Delta Q_D / \% \Delta Q_S$
- b. $\% \Delta Q_D / \% \Delta P$
- c. $\% \Delta Q_S / \% \Delta Q_D$
- d. $\% \Delta P / \% \Delta Q_D$

7. Assume that the city of Jacksonville were to increase the city tax on groceries by 1% and all the tax were passed along the customers. As a result, some customers begin doing their grocery shopping in Springfield and 3% less groceries are sold in the city of Jacksonville. Given this information, demand for groceries would be considered to be:

- a. relatively elastic
- b. relatively inelastic
- c. perfectly elastic
- d. perfectly inelastic

8. If a state legislature wishes to raise revenue by increasing certain excise taxes, it would increase excise taxes on goods that:

- a. Are illegal
- b. Are bought by rich people
- c. Have relatively inelastic demand
- d. Have relatively elastic demand

9. Other things being equal, if income increases and as a result, the demand for good X decreases, then good X is:

- a. An inferior good
- b. A normal good.
- c. A substitute good.
- d. A complementary good.

10. Other things being equal, if the price of coffee increases significantly, then:

- a. Demand for coffee substitutes will decrease.
- b. Demand for coffee will decrease.
- c. Demand for coffee substitutes will increase.
- d. Quantity demanded for coffee will increase.

11. Assume the price of good Y increases by 2% and the cross price elasticity of demand with good X is 1. What economic classification describes good X in this situation?

- a. A normal good
- b. An inferior good
- c. A substitute
- d. A complement

12. At an income of \$100, George buys 10 cans of diet Pepsi. At an income of \$120, George buys 12 cans of diet Pepsi. What economic classification describes George's demand for diet Pepsi?

- a. It is a normal good
- b. It is an inferior good
- c. It is a luxury good
- d. It is a superior good

13. When the prices of fuel oil and natural gas decrease, electric rates are reduced by 15% and the quantity demanded does not change. What can be concluded in the short-run about the demand for electricity?

- a. It is perfectly inelastic
- b. It is perfectly elastic
- c. It is unitary elastic
- d. It is relatively inelastic.

14. If product X has 15 substitute products and product Z has 5 substitute products, ceteris paribus, which item will have the larger elasticity value?

- a. Product X
- b. Product Z
- c. The elasticity values will be the same
- d. There is not information given to determine the answer.

15. How is the long-run defined in economics?
- a. Less than one year
 - b. It requires that at least one input is fixed
 - c. It requires that all inputs are fixed
 - d. It requires that all inputs are variable

SECTION B: STRUCTURED QUESTIONS [60]

Answer All Questions in this section

Question 16

- a) Explain all the reasons why a decrease in a product's price would lead to an increase in purchases. [10]
- b) As a college student you work at a part-time job, but your parents also send you a monthly "allowance." Suppose one month your parents forgot to send the check.
 - i) Show graphically how your budget constraint is affected. [3]
 - ii) Assuming you only buy normal goods, what would happen to your purchases of goods? [3]
 - iii) Is it possible for total utility to increase while marginal utility diminishes? Explain. [3]

Question 17

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

Question 18

- a) What is the relationship between quantity demanded and quantity supplied at equilibrium? [4]

- b) What is the relationship when there is a shortage? What is the relationship when there is a surplus? [4]
- c) How can you locate the equilibrium point on a demand and supply graph?[4]
- d) If the price is above the equilibrium level, would you predict a surplus or a shortage? If the price is below the equilibrium level, would you predict a surplus or a shortage? Why? [4]
- e) When the price is above the equilibrium, explain how market forces move the market price to equilibrium. Do the same when the price is below the equilibrium.[4]

SECTION C

[25]

ESSAY QUESTIONS:

Answer One Question Only

Question 19

Economic theory often uses the concept of the margin.

- (a) Explain how the concept of the margin is used in consumer theory to derive a market demand curve. [12]
- (b) Discuss whether the use of the concept of the margin is important for a firm in deciding its business objective. [13]

Question 20

- (a) Explain the meaning of, and the relationship between, diminishing returns, total product and marginal cost. Use a diagram to illustrate your answer. [12]
- (b) 'Firms undertake vertical and horizontal integration to grow in size. They achieve beneficial economies of scale through growth.' Consider whether economies of scale are always caused by integration and whether, therefore, there is no place for small firms in a modern economy. [13]