



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS, AND ACCOUNTING

DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CPS 213
COURSE TITLE : TRANSPORT ECONOMICS
DURATION : 3 Hours
LEVEL : 2.1
DATE

18 JAN 2023

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer **FOUR** questions, that is number **one (1)** and any other **three (3)**.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []
6. Show all workings, where applicable.

Question 1

A Zimbabwe Ezekiel Guti University (ZEGU) part final student for Purchasing and Supply Chain Management calculated income elasticity of demand for the common modes of transport in Zimbabwe and presented the results below. Given that the economic theory considers transport as a good, which type of goods can be observed assuming the following income elasticities of demand? Explain your answer.

- a) (i) Road: +0.5 [4]
(ii) Air: +2.6 [4]
(iii) Rail: -0.4 [4]
- b) The other student doing a similar research found the following income elasticities of demand of two goods, Road and Rail, are as follows:
Road: +3.0
Rail: -0.2
Now income rises by 5%. By how much quantities demanded of Road and Rail will change? [8]
- c) Show the economic essence of calculating cross price elasticity of demand between transport services. [5]

Question 2

Write a brief explanation on each of the following ways of valuing transport services externalities. Examples are key.

- a) Stated Preference [5]
b) Hedonic pricing approach [5]
c) Precedents [5]
d) Averting Behaviour [5]
e) Travel Cost Method [5]

Question 3

Discuss whether the objective of firms in the transport sector should always be that of profit maximisation. [25]

Question 4

If congestion is such a bad thing, why do economists argue that the optimal amount of congestion is something greater than zero? [25]

Question 5

It has been more than 20 years since local bus services in Zimbabwe were deregulated when ZUPCO resurfaced to dominate the industry. At the time, it was claimed that this controversial policy would increase competition by making the market contestable. In principle, it became easier for firms, large and small, to enter the market as barriers to entry were removed. An Operator's Licence was the only requirement for firms wishing to provide local bus services.

In December 2020, the Inter-Africa, the largest remaining independent company with more than 30% national market share, was quasi-integrated into ZUPCO on a daily hiring deal with massive thousands of dollars pay outs. This move has given ZUPCO substantial new operations across the nation.

- a) State and explain three likely barriers to entry to new firms wishing to join the local bus market at the present time. [6]
- b) Comment upon how the strength of barriers to entry can determine the market structure of a transport industry. [6]
- c) Discuss how the integration of InterAfrica might affect the contestability of the local bus market in the Zimbabwe. [13]

--- The End ---

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