



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

MODULE CODE : CEC 111
MODULE TITLE : PRINCIPLES OF ECONOMICS
DURATION : 3 Hours
LEVEL : 1.1
DATE

30 JUL 2025

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer question number **one (1)** in Section A (Compulsory) and any other **three (3)** questions in Section B.
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.

SECTION A

Question 1: Loyalty and consumer behaviour

Consumer loyalty can be thought of either in relation to card schemes which offer discounts based on the amount spent with a specific retailer, emotional loyalty where customers are loyal to a particular brand, or as a monopoly loyalty where there is no alternative to the retailer or brand.

Retailers recognise that price has an importance in consumers' choice. Many supermarkets use loyalty cards to attract customers with promotions and price reductions available only to those who have a card.

By using cards, supermarkets seek a marketing advantage and attempt to build barriers between retailers. Research indicates, however, that although 70% of United Kingdom (UK) consumers hold some kind of loyalty card, only about 10% are loyal to one particular card.

Concerns have been raised that, when consumers are collecting points towards a particular goal, the loyalty card schemes may act as a constraint on free competition and prevent switching between brands. It is also thought that the costs of the scheme might be funded through higher prices. Further, the incentives and marketing discounts used by the scheme are often thought to be confusing and make it more difficult for the consumer to compare prices. There are risks for retailers too. It requires substantial investment to run such a scheme – one supermarket put the cost at US\$60m a year.

But how do loyalty card schemes fit into the context of the way in which consumers make choices? The relative importance of factors that influence consumers when choosing from which shop to buy groceries are one-stop shopping (43%), good service (22%), price (18%), the availability of a coffee shop (12%) and help with packing (6%). Loyalty cards come below these.

Companies who have invested in card schemes use them as a means to gather data on customers. When the loyalty card is used the retailer can see what the customer prefers to buy and can direct future offers to their wants in specific promotions both on-line and in the mail. Loyalty schemes are thus sometimes less about loyalty and more about understanding customers' wants.

The economic model of consumer behaviour using indifference curves assumes that consumers conduct research and buy products and services in a rational way. However, many purchases are based on habit and consumer research is imprecise. When the consumer has a low involvement in research or a low emotional attachment to the product, there will be little loyalty.

Source: *RSA Journal 1, 2001, page 83*

- (a) What evidence is there in the article to suggest that loyalty cards make markets imperfectly competitive? **[2 marks]**
- (b) Analyse why a profit maximising retailer might be interested in the link between utility, consumers' loyalty and price elasticity of demand. **[5 marks]**
- (c) Consider whether there is conflicting evidence in the article about the effectiveness of loyalty cards which offer price discounts. **[8 marks]**
- (d) Discuss how the idea of rationality is used in the indifference curve theory of consumer behaviour. **[10 marks]**

SECTION B

Question 2

Pollution is caused when consumers or producers make decisions based on self-interest. This is a sign of market failure.

With the help of a diagram, evaluate the extent to which government policies should rely upon market forces to address this market failure. **[25 marks]**

Question 3

Evaluate the view that monopolistically competitive firms will always charge lower prices and operate more efficiently than a monopoly firm. **[25 marks]**

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Question 4

With the help of a diagram, assess the effectiveness of using fiscal policy to solve unemployment in an economy. **[25 marks]**

Question 5

Assess the impact of international aid on the standard of living in low-income countries. **[25 marks]**

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