Answer **All** Questions

Time allowed: 02 hours

01. a) Define and distinguish between microeconomics and macroeconomics.

b) Draw a diagram showing the direction of the flows of good, services, resources and money between business firms and households.

c) Explain why what is a cost to households represents income for business firms and vice versa.

d) What is opportunity cost?

e) What is the "production-possibility frontier"? What can be concluded about an economy, which is
- (i) operating on its production-possibility frontier, and
- (ii) operating inside its production-possibility frontier

02) a) Discuss how the price of a commodity is determined in a market. (use diagrams)

b) Using the graph in (a) how would you explain the concepts of surplus and shortage for a commodity.

c) The market demand and the market supply of a commodity 'X' is given below:

$$Market\ demand: Q_{Dx} = 120,000 - 20,000P_X$$
$$Market\ supply: Q_{Sx} = 20,000P_X$$

Find out the equilibrium price and quantity of this commodity.

d) Suppose the marginal utility to David Harris of product A is defined by the function, $MU_A = 10 - X$, where X is the number of units of A produced. For B, $MU_B = 21 - 2Y$, where Y is the number of units of B produced. Assume that the price of A = price of B = Rs. 1/=.
How much of A and B would David buy if he had Rs. 7/= to spend?

e) Suppose the demand for a certain product is unitary elastic through out its entire schedule. If quantity demanded is 100 units when price is Rs. 1/=, sketch the curve.

03) Using the table given below, answer the following.

Land	1	1	1	1	1	1	1	1	1	1
Labour	0	1	2	3	4	5	6	7	8	9
Total Product (TP)	0	2	5	9	12	14	15	15	14	12

a) Calculate the Average Product (AP) and the Marginal Product (MP) of labour.

b) Plot the curves of Total Product (TP), Marginal Product and the Average Product of labour on the same graph.

c) Indicate the boundaries of the three stages of production in the graph.

d) Explain the economic characteristics of each stage of production.

e) Which stage is rational to produce and why?

f) Explain the shape of the AP curve and MP curve in terms of the shape of the TP curve.

04. a) Explain the following costs:
   (i)   Average Cost (AC)
   (ii) Average Fixed Cost (AFC)
   (iii) Average Variable Cost (AVC), and
   (iv) Marginal Cost (MC)

b) Fill in the missing values to complete the following table: -

Output	TFC	TVC	TC	AFC	AVC	AC	MC
0			30				
1							10
2						24	
3		24					
4			62				
5					10		
6						17	

c) On the same set of axis, plot the AFC, AVC and MC curves.
d) Explain the shape of the curves.
e) Write a short note on "economies of scale".

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