

**PAST  
EXAMINATION  
PAPERS  
ECONOMICS II  
2008 – 20011  
(D – EC 02)**

**Section A****[20 Marks]**

1. Consider the following data for Tshipi Hardware for the year 2007, which had total revenues equal to P1,000,000. Total Expenses: P750, 000. Net income (total revenue minus total expenses): P250,000. The owner of this firm earned P80,000 salary at her previous job. She also pays P40,000 a year rent for a town house, and has P500,000 of her own money invested in the firm.

From the above data the economic profit for 2007 is equal to:

- A. the accounting profit of P250,000
  - B. a loss of P330,000
  - C. P130,000
  - D. a loss of P370,000
  - E. P170,000 minus the foregone interest on her P500,000 investment.
2. According to the benefit principle of taxation,
- A. the amount of taxes paid should be equal across income groups.
  - B. taxes should be paid according to the benefits that taxpayer derives from the public expenditure
  - C. there should be no user charges for government services.
  - D. the greater one's incomes, the greater the benefit generally received from the public expenditures
  - E. the economy benefits the most when the government maximises its tax revenue.
3. By trading in international markets, countries
- A. can consume beyond their production possibility boundary.
  - B. will always produce the same commodity bundle as before trade.
  - C. can produce outside of their production possibility boundary.
  - D. must choose one of the intercepts on the production possibility boundary indicating complete specialisation.
  - E. always produce and consume the same bundle of commodities.
4. Which of the following equations could represent an isocost line for two factors C and L, and their respective prices  $P_C$  and  $P_L$ ?
- B.  $LC = P100$
  - B.  $P100 = P_C + P_L$
  - C.  $P100 = P_C C + P_L L$
  - D.  $P100 = = P_C P_L$
  - E.  $LC = P_C C + P_L L$

Use the following table to answer the next question.

Apples		Oranges	
Units	Total utility	Units	Total utility
0	0	0	0
1	15	1	22
2	28	2	41
3	38	3	58
4	48	4	73
5	55	5	85

5. The price of apples and oranges are each P1 per unit and the consumer has a total of P6 to spend. What is the total utility for the optimal bundle of apples and oranges?
- A. 73  
 B. 85  
 C. 100  
 D. 110  
 E. none of the above.

Use the table below to answer question 6.

Number of Workers	Total Outputs (per day)
1	14
2	26
3	37
4	46
5	53
6	58
7	62

6. The product price in a perfectly competitive industry is P50.00 per unit. Given that the going wage is P300 per day, how many workers will this firm hire?
- A. 3  
 B. 4  
 C. 5  
 D. 6  
 E. 7

7. When can monopolistic competitive firms earn an economic profit?
- A. Only in the short run.
  - B. Only in the long run.
  - C. In both the short run and long run.
  - D. Depending on market conditions, sometimes in the long run, sometimes in the short run, and sometimes in neither.
  - E. none of the above
8. A mining company's purchase of a grocery retailer is a
- A. conglomerate merger.
  - B. horizontal merger.
  - C. vertical merger.
  - D. denied takeover.
  - E. hostile takeover
9. Which of the following statements is correct?
- A. Oligopolistic firms face horizontal (perfectly elastic) demand curves for their products.
  - B.  $MR = P$  for monopolistic competitive firms but not for oligopolies.
  - C. Monopolistic competitive firms generally earn higher profits in the long run than oligopolistic firms.
  - D. The barriers to entry are lower in monopolistic competitive industries than in oligopolistic industries.
  - E. Profit is maximised at a point where  $MR=P$
10. Suppose an industry forms a cartel to which all firms in the industry belong. Then a firm will find that its profits will be maximised if
- A. it does not cheat on the cartel agreement
  - B. it cheats on the cartel agreement and no other firm cheats
  - C. it cheats on the cartel agreement and all the other firms also cheat
  - D. it does not cheat and all the other firms cheat.
  - E. none of the above
11. What problem does the government have that makes price regulation of natural monopolies less than an ideal solution?
- A. There is no effective way to enforce price regulation.
  - B. The government can't tell what price a firm is charging
  - C. Regulators frequently will not have the information they need to set prices.
  - D. Regulation often will lower costs.
  - E. The government cannot determine the level of output
12. Consumer equilibrium is achieved by equating the:
- A. price of each good to the marginal utility of money.
  - B. marginal utility of one good to the price of the other.
  - C. marginal utility of each good to the marginal utility of money.
  - D. marginal utility/price ratios of all goods.
  - E. price of each good to total utility obtained

13. The "medium of exchange" function means money is used:
- A. as the common denominator of prices.
  - B. as the common denominator of future payments.
  - C. to pay for goods and services.
  - D. to accumulate purchasing power.
  - E. to maintain the exchange value of commodities
14. Assume that the required-reserve ratio for modern bank is 10 percent. If one bank obtains excess reserves of P1,000, then checkable deposits will ultimately increase by:
- A. P10,000.
  - B. P100.
  - C. P900
  - D. P1,000.
  - E. P900,000.
15. Which of the following definitions correctly describes the velocity of circulation?
- A. The money stock in a given time period divided by the level of prices
  - B. The number of times in a given period that a unit of money is used to purchase final output
  - C. The total value of transactions in a given time period divided by the average price level
  - D. The quantity of goods bought and sold
  - E. None of the above
16. Expansionary fiscal policy includes:
- A. decreasing reserve requirements.
  - B. decreasing consumption expenditures.
  - C. increasing government expenditures.
  - D. increasing the money supply.
  - E. increasing taxes.
17. The critical function that separates a financial intermediary from other types of businesses is that it:
- A. generates tax revenue for government spending.
  - B. facilitates the exchange of retail goods.
  - C. enables the exchange of corporate stock.
  - D. provides insurance to car owners.
  - E. diverts household saving to business investment.
18. A kinked demand curve means that a firm can have changes in:
- A. cost without price changes.
  - B. quantity without price changes.
  - C. quantity without cost changes.
  - D. prices without quantity changes.
  - E. prices without cost changes.

19. The following table shows the costs of production of 2 goods in 2 nations.

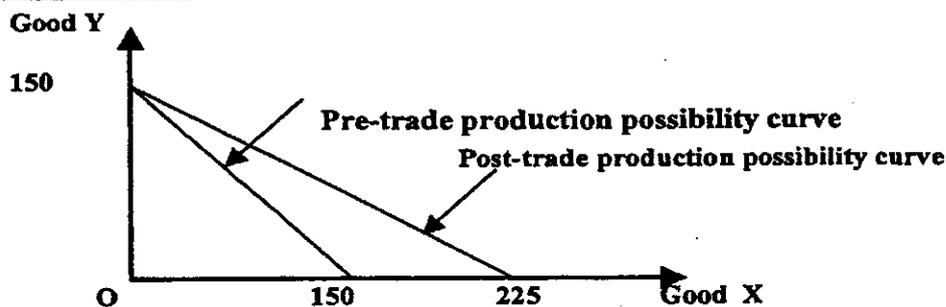
Country	Toys	Books
Botswana	P 100	P 50
South Africa	R 1 500	R 4 500

Which of the following are true?

- (1) The term of trade of 1 book to 2 units of toys is mutually beneficial to both nations.
- (2) South Africa has a comparative advantage in the production of books.
- (3) The possible exchange rate lies between R 15 / Pula to R 90 / Pula.

- A. (1) and (2) only.
- B. (1) and (3) only.
- C. (2) and (3) only.
- D. (1), (2) and (3).
- E. (3) only

20. Refer to the diagram of a nation below.



Which of the following statements are correct?

- (1) The nation has a comparative advantage in the production of good X.
- (2) The cost to its trading partner of producing 1 unit of good Y is higher than 1.5 units of good X.
- (3) The nation will import good X and export good Y.

- A. (1) and (2).
- B. (1) and (3).
- C. (2) and (3).
- D. (1), (2) and (3).
- E. (3) only

**Section B****[80 marks]****Question 1****[20 marks]**

- (a) A consumer is spending an entire weekly income on goods A and B. The consumer spends his income such that the last Pula spent on A yields a marginal utility of 10 and the last Pula spent on B yields a marginal utility of 20. Advise the consumer on how he can be in equilibrium and fully explain your answer. **[8 marks]**
- (b) With the aid of well-labeled diagram(s) explain the substitution effect and the income effect of a price change for a normal good. **[12 marks]**

**Question 2****[20 marks]**

- (a) Suppose the money market is initially in equilibrium. If income increases, will the money market still be in equilibrium? Describe the processes by which the money market moves to equilibrium. **[10 marks]**
- (b) Define and explain cost push inflation. **[10 marks]**

**Question 3****[20 marks]**

One of the key lessons on macroeconomics is that government policies that benefit the economy in the short run may hurt the economy in the long run.

- (a) Why is an increase in the government's budget deficit good for the economy in the short run but potentially bad for the economy in the long run? **[8 marks]**
- (b) Suppose the increase in the government's budget deficit is due to increased spending for education. Would your answer to Part (a) change? **[6 marks]**
- (c) Suppose the increase in the government's deficit is due to increased spending for public infrastructure such as the transportation or communications network. Would your answer to Part (a) change? **[6 marks]**

**Question 4****[20 marks]**

- (a) Draw a diagram to illustrate the situation of a firm in a monopolistically competitive industry that is in long-run equilibrium. **[7 marks]**
- (b) Suppose that demand for the product increases. Show the short-run effects on price, output, and profit for the firm. Explain. **[7 marks]**
- (c) What will be the long-run effects of the increase in demand? **[6 marks]**

*End of Examination*