ASSIGNMENT 1ST SEMESTER : MICROECONOMICS (MIC)  
ECONOMICS 201 (ECO201)  
STUDY UNITS COVERED : STUDY UNITS 7, 11, 12, 13, 14  
DUE DATE : 3:00 p.m. 15 MARCH 2011  
TOTAL MARKS : 100

INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS

The complete ‘Instructions to Students for Completing and Submitting Assignments’ must be collected from any IMM GSM office, the relevant Student Support Centre or can be downloaded from the IMM GSM website. It is essential that the complete instructions be studied prior to commencing your assignment. The following points highlight only a few important notes.

1. You are required to submit ONE assignment per subject.

2. The assignment will contribute 20% towards the final examination mark, and the other 80% will be made up from the examination, however, the examination papers will count out of 100%.

3. Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.

4. Number all the pages of your assignment (e.g. page 1 of 4) and write your name and surname, student number and subject at the top of each page.

5. The IMM GSM requires assignments to be presented in a typed format, on plain A4 paper. Unless otherwise specified, this assignment must be completed within a limit of 1500 words, excluding the bibliography.

6. A separate assignment cover, which is provided by the IMM GSM, must be attached to the front of each assignment.

7. Retain a copy of each assignment before submitting, in case the original does not reach the IMM GSM.

8. The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on 15 March 2011. Late assignments will be accepted, but 25 marks will be deducted from the maximum mark, if received after 3:00 p.m. on 15 March 2011 and up to 5:00 p.m. the following day, after which no assignments will be accepted.

9. If you fail to follow these instructions carefully, the IMM Graduate School of Marketing cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IMM GSM website, www.immgsa.ac.za, on Friday, 6 May 2011.
Answer ALL questions

QUESTION 1 [25]

“Each individual has to decide how to divide his or her time between work and leisure”. Based on this equation:

1.1 Illustrate and explain the backward bending supply curve for labour. In your answer, indicate and differentiate between the concepts substitution effect and income effect. (5)

1.2 Explain THREE (3) factors that may cause the market supply of labour to change. (3)

1.3 Explain TWO (2) factors that may cause the market demand for labour to change. (2)

1.4 Define the following concepts related to the labour market:
   a. Physical product of labour (MPP) (2)
   b. Marginal revenue product of labour (MRP) (2)
   c. Economically active population (2)
   d. Labour force participation rate (2)

1.5 State the meaning of the equilibrium condition where MRP = wage rate. (2)

1.6 Assume a situation where workers receive R60.00 per day. Illustrate and explain the effects when the trade union succeeds in having the minimum wage increased to R80.00 per day. (5)

QUESTION 2 [25]

2.1 “A firm producing under conditions of perfect competition is unable to make supernormal profits in the long run”.

Explain this statement with the aid of diagrams. You need to illustrate and explain at least THREE (3) graphs, including an explanation of what happens in the general market for the product. (16)

2.2 Define the concept ‘monopoly’. Thereafter, illustrate and explain the position of a monopolist (NOT monopolistic competitor) that realises an economic profit. (9)

QUESTION 3 [40]

Indicate your answers to each of the following questions on the answer sheet provided. Each answer is worth two (2) marks. For each section below select the MOST APPROPRIATE answer from the choices given. Mark your answers with an X in the correct block on the ANSWER SHEET on page 7.
3.1 In economics, the four main factors of production are
   a. land, human capital, physical capital and financial capital.
   b. natural resources, man-made resources, labour and money.
   c. land, capital, labour and notes and coins in circulation.
   d. human capital, physical capital, financial capital and entrepreneurship.
   e. land, labour, capital and entrepreneurship.

3.2 The outward shift of the frontier from AC to BC could arise from
   a. a decrease in the level of unemployment.
   b. technological progress that affects good X production and good Y production equally.
   c. an improvement in labour productivity only in the industry producing good X.
   d. an improvement in labour productivity only in the industry producing good Y.
   e. a reallocation of resources from X production to Y production.

3.3 The term *ceteris paribus* means
   a. that if event A precedes event B, A has caused B.
   b. that economics deals only with facts, not with suppositions.
   c. all other things being equal.
   d. what is true for one is seldom true for all.
   e. that useful economic theory can seldom be formulated if changes in only one factor are considered.

3.4 When an individual’s income rises *ceteris paribus*, his/her demand for beans, an inferior good
   a. rises.
   b. falls.
   c. remains unchanged.
   d. becomes more positive.
   e. can be affected in different ways – we need additional information to provide an answer.

3.5 If milk is a normal good, then a decrease in consumers’ income will definitely cause
   a. a decrease in the demand for milk.
   b. an increase in the demand for milk.
   c. an increase in the supply of milk.
   d. a decrease in the supply of milk.
   e. an increase in the demand and supply of milk.
3.6 A decrease in the cost of flour used to bake bread, is most likely to
a. decrease the demand for bread.
b. increase the supply of bread.
c. decrease the equilibrium quantity of bread traded.
d. decrease the quantity of bread demanded.
e. decrease the supply of bread.

3.7 There is an increase in the number of adverts highlighting the dangers of consuming artificial sweeteners (as opposed to sugar). Which of the following is likely to occur in the market for sugar, as a result of this?
   a. An increase in both price and equilibrium quantity traded
   b. A decrease in price and an increase in equilibrium quantity traded
   c. A decrease in both price and equilibrium quantity traded
   d. An increase in price and a fall in equilibrium quantity traded
   e. None of the above is likely to result

3.8 In the market for first year economics textbooks, assuming everything else remains unchanged, the equilibrium price of textbooks will increase if
   a. there is a surplus of textbooks.
   b. the price of university education, a complement, increases.
   c. the supply of textbooks increases.
   d. the cost of the publication of textbooks increases.
   e. there is a drop in the cost of paper necessary to produce textbooks.

3.9 If the price of powdered milk, a substitute for fresh milk, falls then
   a. the supply curve of fresh milk will shift to the right.
   b. the demand curve for fresh milk will shift to the right.
   c. the equilibrium quantity and price of fresh milk will not change.
   d. the quantity of fresh milk demanded will increase.
   e. the demand curve for fresh milk will shift to the left.

3.10 The equilibrium price of wine will increase if, ceteris paribus,
   a. consumers are more aware of the risks of alcohol abuse.
   b. there is a surplus of wine.
   c. the supply of wine decreases.
   d. wine is a normal good and income decreases.
   e. all wine adverts are banned.

3.11 The demand for cooldrink is price elastic if
   a. an increase in price results in an increase in total revenue.
   b. a decrease in price results in an increase in total revenue.
   c. the good is a necessity.
   d. a decrease in price results in a decrease in total revenue.
   e. the quantity of cooldrink demanded is not sensitive to changes in price.
3.12 Total revenue from the sale of biltong will increase if
a. income decreases and biltong is a normal good.
b. its price rises and demand is unitary price elastic.
c. income increases and biltong is viewed as an inferior good.
d. its price falls and demand is price elastic.
e. its price rises and demand is price elastic.

3.13 Which of the following statements is correct?
a. The short run is a time period of one year or less.
b. The short run is a period of time during which the quantities of all inputs can be varied, but technology is held constant.
c. The short run is a period of time during which the quantity of at least one input is fixed and the quantities of the other inputs can be varied.
d. The long run is a period of time during which the quantities of all factor inputs are fixed.
e. The time period separating the short run from the long run is at least 3 months.

3.14 Marginal cost is the amount that
a. total cost increases when one more labourer is hired.
b. fixed cost increases when one more labourer is hired.
c. variable cost increases when one more labourer is hired.
d. total cost increases when one more unit of output is produced.
e. fixed cost increases when one more unit of output is produced.

3.15 In a perfectly competitive market, the market price is R20. If the last unit of output that the firm produced cost the firm R18, the firm would maximise profits if it were to
a. shut down.
b. expand output.
c. contract output.
d. increase the price of output.
e. leave output unchanged – the firm is currently maximising profits.

3.16 In a perfectly competitive industry, the market price is R20. An individual firm produces output at which MC = ATC = R25. AVC at that output is R15. What should the firm do to maximise short run profits?
a. Shut down
b. Expand output
c. Contract output
d. Leave output unchanged
e. Leave the market temporarily

3.17 Which of the following is not true of a monopolist?
a. A monopolist is protected from competition.
b. A monopolist can earn economic profits.
c. A monopolist is a price maker.
d. A monopolist can sell as much as he/she wants to.
e. A monopolist faces the market demand curve.
3.18 When the demand curve facing the firm slopes downward, marginal revenue is less than price
   a. because of the principle of diminishing returns.
   b. in the short run, but not in the long run.
   c. because as output increases, the price must fall on all units.
   d. because taxes must be paid.
   e. None of the above

3.19 The definition of the labour force includes
   a. housewives.
   b. people who have retired.
   c. full-time students.
   d. people who are in prison.
   e. those who are unemployed.

3.20 An upward-sloping labour supply curve illustrates that, *ceteris paribus*,
   a. the quantity of labour supplied and the hours of work per week are directly related.
   b. the quantity of labour supplied and the price of labour used to produce output are inversely related.
   c. individuals use higher income to buy back leisure time.
   d. a greater quantity of labour would be supplied at higher wage rates.
   e. All of the above statements are correct.

PRESENTATION

ASSIGNMENT TOTAL: 100
# ANSWER SHEET

(DETACH THE ANSWER SHEET AND INCLUDE IT WITH YOUR ASSIGNMENT)

ASSIGNMENT: ECONOMICS 2/MICROECONOMICS

DATE: 15 MARCH 2011

QUESTION: ONE (1)

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