



**ASSIGNMENT 1ST SEMESTER : MICROECONOMICS (MIC)
ECONOMICS 2 (ECO201)**

CHAPTERS COVERED : 1, 2, 6, 7 - 11

DUE DATE : 3:00 p.m. 20 MARCH 2012

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 contributed by 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. Students who exceed the word limit may find that only part of the submitted assignment will be marked.
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 20 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 20 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.immgsm.ac.za, on Friday, 4 May 2011.

Answer ALL the questions**QUESTION 1 [50]**

1. In 1996 unleaded fuel was introduced at 4 cents a litre cheaper than leaded fuel.
 - 1.1. How would you describe, in economic terms, the relationship between leaded and unleaded fuel? **(1)**
 - 1.2. How did the demand for leaded fuel change? Describe and illustrate graphically. **(5)**
 - 1.3. How would the following events affect the individual's demand for unleaded fuel? Briefly, give reasons for your answers.
 - 1.3.1. An increase in the price of cars **(1)**
 - 1.3.2. An increase in the proportion of the population owning cars **(1)**
 - 1.3.3. A growing public concern about environmental issues **(1)**
2. Use the concept of price elasticity of supply to explain why:
 - 2.1. Waiters and waitresses are poorly paid. **(2)**
 - 2.2. Some Hollywood actors are paid millions of dollars per movie. **(2)**
3. From the information in the table below:
 - 3.1. Calculate the marginal utility (A, B and E) and total utility (C, D, F and G) of eating chocolates. **(4)**

Number of Chocolates	Total Utility	Marginal Utility
1	10	A
2	18	B
3	C	6
4	D	4
5	30	E
6	F	0
7	G	-2

- 3.2. Does the law of diminishing marginal utility apply to the information in the above table? Substantiate your answer. **(2)**
- 3.3. Illustrate graphically the total utility and marginal utility of eating chocolates. **(4)**

4. A survey indicated that chocolate is South African's favourite ice cream flavour. For each of the following, indicate the possible effects on demand, supply, or both as well as equilibrium price and quantity of chocolate ice cream.
- 4.1. A severe drought in the Western Cape causes dairy farmers to reduce the number of milk-producing cattle in their herds by a third. These dairy farmers supply cream that is used to manufacture chocolate ice cream. **(2)**
- 4.2. A new report by the Medical Association reveals that chocolate does, in fact, have significant health benefits. **(2)**
- 4.3. The discovery of cheaper synthetic vanilla flavouring lowers the price of vanilla ice cream. **(2)**
- 4.4. New technology for mixing and freezing ice cream lowers manufacturers' costs of producing chocolate ice cream. **(2)**
5. Show in a diagram the effect on the demand curve, the supply curve, the equilibrium price, and the equilibrium quantity of each of the following events.
- 5.1. a) The market for newspapers in your town if the salaries of journalists go up. **(3)**
- b) There is a big news event in your town, which is reported in the newspapers. **(3)**
- 5.2. a) The market for Bafana Bafana cotton T-shirts if Bafana Bafana wins the African Cup. **(3)**
- b) The price of cotton increases. **(3)**
6. Amazon.com, the online bookseller, wants to increase its total revenue. One strategy is to offer a 10% discount on every book it sells. Amazon.com knows that its customers can be divided into two distinct groups according to their likely responses to the discount. The accompanying table shows how the two groups respond to the discount.

	Group A (sales per week)	Group B (sales per week)
Volume of sales before the 10% discount	1.55 million	1.50 million
Volume of sales after the 10% discount	1.65 million	1.70 million

- 6.1. Using the midpoint method, calculate the price elasticities of demand for group A and group B. **(4)**
- 6.2. Explain how the discount will affect total revenue from each group. **(2)**

- 6.3. Suppose Amazon.com knows which group each customer belongs to when he/she logs on and can choose whether or not to offer the 10% discount. If Amazon.com wants to increase its total revenue, should discounts be offered to group A or group B, to neither group, or to both groups? **(1)**

QUESTION 2 [40]

You have been appointed as the sales and marketing director of Intercity Bus Services which transports commuters between Johannesburg, Midrand, Centurion and Pretoria.

During the last financial year Intercity Bus Services made a loss and the board has appointed you, since not only are you a marketing expert, but you also have a strong economic background.

The board has requested that you submit a report which could be used as input into the strategy to turn commuter transport into a profitable business. The board wants to make sure they understand all aspects of basic economic principles such as demand, supply and elasticity before making any decisions.

Your report must include all aspects which you think are necessary to help a board which consists mainly of non-economists to understand what needs to be considered during the decision process.

PRESENTATION [10]

ASSIGNMENT TOTAL: 100