



**THE UNIVERSITY OF THE WEST INDIES
FIVE ISLANDS CAMPUS**

Semester II

Examinations of April/May 2022

Course Code: ECON1001
Course Title: Introduction to Microeconomics
Date of Assessment: Thursday April 28, 2022
Time: 1:00pm - 3:00pm
Duration: 2 Hours

INSTRUCTIONS TO CANDIDATES:

This paper has 3 pages and 5 questions.

YOU ARE REQUIRED TO ANSWER 3 QUESTIONS.

THIS ASSESSMENT IS WORTH 60 % OF YOUR FINAL GRADE.

ASSIGNMENT DETAILS FROM INSTRUCTORS:

This paper comprises of five (5) questions. Students are required to answer ANY three (3) questions

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ANSWER ANY THREE (3) OF FIVE (5) QUESTIONS

1. A) State 5 conditions necessary for perfect competition. **(5 marks)**
- B) Firms in a perfectly competitive market are said to be “price takers”-that is, once the market determines an equilibrium price for the product, firms must accept this price. If you sell a product in a perfectly competitive market, but are not happy with its price, would you raise the price even by a cent? **(5 marks)**
- C) What is monopoly? Give 3 reason for the existence of monopolies. **(8 marks)**
- D) What is price discrimination? Why do firms practice price discrimination? **(7 marks)**

2. A. Explain the difference between fixed and variable cost. **(8 marks)**
- B. What effect will an increase in output have on average fixed, average variable and average total costs? **(17 marks)**
- C. Explain the difference between long run and short run. **(5 marks)**

3. A. What do you understand by consumer's equilibrium? Give logical reasoning as to how he reaches his state of equilibrium. **(6 marks)**
- B. Explain the difference between marginal and total utility. **(4 marks)**
- C. How does the cardinal theory explain the shape of the demand curve? **(12 marks)**

OR

How does the ordinal theory explain the shape of the demand curve? **(12 marks)**

- D. Why is the price of diamonds higher than the price of water? **(8 marks)**

4. A. Explain what is meant by (a) constant returns to scale, (b) increasing return to scale, (c) decreasing returns to scale. Explain briefly how each of these might arise. **(12marks)**
- B. With the aid of an example explain the law of variable proportions. **(10 marks)**
- D. Define the following terms:
- i. Marginal revenue
 - ii. Marginal Cost. **(3 marks)**

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5. (a) Complete the following tables, assuming that each unit of labor cost \$75.00 per day.

L	Q	AP	MP	TFC	TVC	TC	AFC	AC	MC
0				300					
1	5				75				
2	11								
3	15								
4	18								
5	20								

L = quantity of labour per day
 Q = output per day
 Ap = average product
 Mp = marginal product
 TFC = total fixed cost
 TC = total cost

AFC = average fixed cost
 AC = average total cost
 MC = marginal cost

(19 marks)

(b) Define the following:

- i. Marginal product
- ii. Average Product
- iii. Production function

(6 marks)

END OF QUESTION PAPER