

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

EC101 (3): ECONOMIC PRINCIPLES 1

PROGRAMMES

BACHELOR OF SCIENCE HONOURS IN ECONOMICS

BACHELOR OF ACCOUNTANCY

BACHELOR OF COMMERCE HONOURS IN MARKETING

BACHELOR OF COMMERCE HONOURS IN PURCHASING & SUPPLY

**BACHELOR OF BUSINESS ADMINISTRATION HONOURS IN POLICE & SECURITY
STUDIES**

BACHELOR OF COMMERCE HONOURS IN FINANCIAL INTELLIGENCE

BACHELOR OF COMMERCE HONOURS IN BANKING AND FINANCE

BACHELOR SCIENCE HONOURS IN FINANCIAL MATHEMATICS

EC101 (3): ECONOMIC PRINCIPLES 1

DURATION: 3 HOURS TOTAL MARKS: 100

INSTRUCTIONS TO CANDIDATES

- (i) **Section A and B are compulsory.**
- (ii) **Answer questions in Section A on the separate sheet provided by marking the appropriate answer with an 'X'.**
- (iii) **Answer any ALL questions from section B.**
- (iv) **Start each answer for section B and C on a new page.**
- (v) **Write legibly.**
- (vi) **Marks for section B and C are in parenthesis.**
- (vii) **Crying is allowed but do it silently**

SECTION A

1. What is the central problem of economics?
 - A. Unlimited resources and limited wants.
 - B. Limited resources and unlimited wants.
 - C. Unlimited resources and unlimited wants.
 - D. Limited resources and limited wants.
2. Which of the following best describes opportunity cost?
 - A. The cost of the best alternative that must be forgone to pursue a certain action
 - B. The cost of producing one more unit of a good.
 - C. The total cost of all resources used in production.
 - D. The cost of labor and capital.
3. If the price of bread increases, what happens to the quantity demanded?
 - A. It increases.
 - B. It decreases.
 - C. It remains the same.
 - D. It fluctuates
4. Calculate the price elasticity of demand if the price of maize meal increases from \$10 to \$12 and the quantity demanded decreases from 1000 units to 800 units.
 - A. -1.25
 - B. -0.8
 - C. -1.5
 - D. -2.0
5. What happens to the supply of tobacco in Zimbabwe if the government imposes a tax on tobacco production?
 - A. Supply increases.
 - B. Supply decreases.
 - C. Supply remains unchanged.
 - D. Supply becomes perfectly elastic.
6. Calculate the price elasticity of supply if the price of oranges increases from \$5 to \$6 and the quantity supplied increases from 500 units to 600 units.
 - A. 1.2.

B. 1.0.

C. 0.8.

D. 1.5.

7. In a perfectly competitive market, what is the relationship between price and marginal cost at equilibrium?

A. Price is greater than marginal cost.

B. Price is less than marginal cost.

C. Price equals marginal cost.

D. Price is unrelated to marginal cost.

8. If the market for tomatoes is perfectly competitive and the equilibrium price is \$3 per kg, what happens if the government sets a price floor at \$4 per kg?

A. There will be a surplus of tomatoes.

B. There will be a shortage of tomatoes.

C. The market will clear at \$4 per kg.

D. The price will fall to \$2 per kg.

9. Which of the following goods is likely to have the highest price elasticity of demand?

A. Salt.

B. Bread.

C. Luxury cars.

D. Water.

10. If the price elasticity of demand for a product is -0.5, what type of elasticity does this represent?

A. Perfectly elastic.

B. Inelastic.

C. Unit elastic.

D. Elastic.

11. Which factor is most likely to affect the elasticity of supply for agricultural products in Zimbabwe?

A. Weather conditions.

B. Consumer preferences.

C. Advertising.

D. Technological advancements.

12. If the price elasticity of supply for maize is 0.7, what does this indicate about the supply?

- A. Supply is elastic.
- B. Supply is inelastic.
- C. Supply is unit elastic.
- D. Supply is perfectly elastic.

13. What does the law of diminishing marginal utility state?

- A. As consumption of a good increases, total utility decreases.
- B. As consumption of a good increases, marginal utility decreases.
- C. As consumption of a good increases, marginal utility increases.
- D. As consumption of a good increases, total utility remains constant.

14. If a consumer spends all their income on two goods, maize meal and cooking oil, and the price of maize meal increases, what happens to the consumer's budget line?

- A. It shifts outward.
- B. It shifts inward.
- C. It rotates inward.
- D. It rotates outward.

15. What is the marginal product of labor?

- A. The additional output produced by an additional unit of labour.
- B. The total output produced by all units of labour.
- C. The average output produced by each unit of labour.
- D. The cost of hiring an additional unit of labor

16. If a firm employs 5 workers and produces 100 units of output, and then employs a 6th worker and produces 120 units of output, what is the marginal product of the 6th worker?

- A. 20 units.
- B. 120 units
- C. 100 units
- D. 6 units

17. What is the definition of fixed costs?

- A. Costs that vary with the level of output.
 - B. Costs that remain constant regardless of output.
 - C. Costs that increase with the level of output.
 - D. Costs that decrease with the level of output.
18. If a firm has total fixed costs of \$500 and produces 100 units of output, what is the average fixed cost?
- A. \$5.
 - B. \$50.
 - C. \$500.
 - D. \$0.5.
19. Which market structure is characterized by a single seller?
- A. Perfect competition.
 - B. Monopolistic competition.
 - C. Oligopoly.
 - D. Monopoly.
20. In which market structure do firms have some control over the price of their products?
- A. Perfect competition.
 - B. Monopolistic competition.
 - C. Oligopoly.
 - D. Monopoly.
21. What is a common cause of market failure in Zimbabwe?
- A. Perfect competition.
 - B. Externalities.
 - C. Efficient allocation of resources.
 - D. High consumer surplus.
22. If a factory pollutes a river, what type of market failure does this represent?
- A. Positive externality.
 - B. Negative externality.
 - C. Public good.
 - D. Market power.

23. If the demand function for maize in Zimbabwe is $Q_d = 1000 - 50P$ and the supply function is $Q_s = 200 + 30P$, what is the equilibrium price?
- A. A) \$10.
 - B. B) \$12.5.
 - C. C) \$15.
 - D. D) \$20.
24. Using the same demand and supply functions, what is the equilibrium quantity?
- A. 500 units.
 - B. 600 units.
 - C. 700 units.
 - D. 800 units.
25. If the price of a good increases from \$5 to \$7 and the quantity demanded decreases from 200 units to 150 units, what is the price elasticity of demand?
- A. -0.75.
 - B. -1.25.
 - C. -1.5.
 - D. -2.0.
26. If the price of a good increases from \$8 to \$10 and the quantity supplied increases from 400 units to 500 units, what is the price elasticity of supply?
- A. 0.5.
 - B. 1.0.
 - C. 1.5.
 - D. 2.0.
27. If a consumer's income increases from \$1000 to \$1200 and their consumption of a normal good increases from 50 units to 60 units, what is the income elasticity of demand?
- A. 0.5.
 - B. 1.0.
 - C. 1.5.

D. 2.0.

28. In the long run, a firm in the manufacturing sector is likely to experience:

- A. Increasing returns to scale.
- B. Decreasing returns to scale.
- C. Constant returns to scale.
- D. None of the above.

29. The cost structure of a firm in the long run is characterized by:

- A. Rising average and marginal costs.
- B. Falling average and marginal costs.
- C. U-shaped average cost curve.
- D. Constant average and marginal costs.

30. The market structure that is most prevalent in the Zimbabwean mining industry is:

- A. Perfect competition.
- B. Monopolistic competition.
- C. Oligopoly.
- D. Monopoly.

31. The main cause of market failure in the Zimbabwean housing market is:

- A. Lack of property rights.
- B. Positive externalities.
- C. Information asymmetry.
- D. Government intervention.

32. In a perfectly competitive market, a firm's profit-maximizing decision is to produce at the level where:

- A. Marginal revenue equals marginal cost.
- B. Average revenue equals average cost.
- C. Marginal revenue equals price.
- D. All of the above.

33. The demand for basic foodstuffs is typically:

- A. Elastic.
- B. Inelastic.
- C. Unitary elastic.

D. Zero.

34. The theory of consumer behavior suggests that a consumer's choice is influenced by:

- A. Income and prices.
- B. Tastes and preferences.
- C. Substitutes and complements.
- D. All of the above.

35. The short-run production function in the Zimbabwean service sector is typically characterized by:

- A. Increasing returns to scale.
- B. Decreasing returns to scale.
- C. Constant returns to scale.
- D. None of the above.

36. The cost structure of a firm in the short run is characterized by:

- A. Rising average and marginal costs.
- B. Falling average and marginal costs.
- C. U-shaped average cost curve.
- D. Constant average and marginal costs.

37. The market structure that is most prevalent in the Zimbabwean retail sector is:

- A. Perfect competition
- B. Monopolistic competition
- C. Oligopoly
- D. Monopoly

38. The main cause of market failure in the Zimbabwean education system is:

- A. Lack of property rights
- B. Positive externalities
- C. Information asymmetry
- D. Government intervention

39. The theory of production suggests that in the long run, a Zimbabwean firm is likely to experience:

- A. Increasing returns to scale.
- B. Decreasing returns to scale.

C. Constant returns to scale.

D. None of the above.

40. The theory of costs suggests that the long-run average cost curve of a Zimbabwean firm is:

A. Upward sloping.

B. Downward sloping.

C. U-shaped.

D. Flat.

41. The market structure that is most prevalent in the Zimbabwean agricultural sector is:

A. Perfect competition.

B. Monopolistic competition.

C. Oligopoly.

D. Monopoly.

42. The main cause of market failure in the Zimbabwean transportation sector is:

A. Lack of property rights.

B. Negative externalities.

C. Information asymmetry.

D. Government intervention.

43. The theory of consumer behavior suggests that a consumer's demand for a good is influenced by:

A. Income and prices.

B. Tastes and preferences.

C. Substitutes and complements.

D. All of the above.

44. The theory of supply suggests that an increase in the price of a good is most likely to lead to:

A. An increase in the quantity supplied.

B. A decrease in the quantity supplied.

C. No change in the quantity supplied.

D. A movement along the supply curve.

45. The price elasticity of demand for basic services (water, electricity) is typically:

- A. Elastic.
- B. Inelastic.
- C. Unitary elastic.
- D. Zero.

46. The price elasticity of supply of skilled labor in Zimbabwe is generally:

- A. Elastic
- B. Inelastic
- C. Unitary elastic
- D. Zero

47. The law of demand states that:

- A. As the price of a good rises, the quantity demanded rises.
- B. As the price of a good falls, the quantity demanded falls.
- C. As the price of a good rises, the quantity demanded falls.
- D. As the price of a good falls, the quantity demanded rises.

48. The theory of production suggests that in the short run, a Zimbabwean firm is likely to experience:

- A. Increasing returns to scale
- B. Decreasing returns to scale
- C. Constant returns to scale
- D. None of the above

49. The theory of costs suggests that the short-run average cost curve of a firm is:

- A. Upward sloping.
- B. Downward sloping.
- C. U-shaped.
- D. Flat.

50. The main cause of market failure in the Zimbabwean telecommunication sector is:

- A. Lack of property rights.

- B. Positive externalities.
- C. Information asymmetry.
- D. Government regulation.

SECTION B (Compulsory)

Question1

Cairns Foods Limited, a prominent player in the food and beverages industry, has been facing a significant decrease in the demand for its products in recent years. The company, which specializes in chips and snacks, canned foods and jams, confectionery, and groceries, has seen its market share erode as it struggles to keep up with the changing consumer landscape. The company is also facing outdated marketing and advertising strategies. While Cairns Foods was once a household name, its brand has failed to evolve with the times, leaving it disconnected from the preferences of modern consumers. The company's reliance on traditional media channels, such as print and television, has proven less effective in reaching younger, tech-savvy consumers who have shifted their attention to digital platforms.

Furthermore, the increased competition from both domestic and international players has posed a significant challenge for Cairns Foods. Newer, innovative brands have entered the market, offering products that cater to the changing dietary preferences of consumers, particularly the growing demand for healthier snack options. This has forced Cairns Foods to compete on price, which has had a detrimental effect on its profit margins. As economic conditions have fluctuated, many of Cairns Foods' target customers have experienced a decline in their disposable income, leading them to prioritize more essential purchases over discretionary spending on snacks and confectionery items.

Additionally, the company's product portfolio has not kept pace with the changing consumer preferences. While Cairns Foods has traditionally focused on classic, indulgent snacks, the market has seen a surge in demand for products that cater to dietary restrictions, such as gluten-free, vegan, and low-calorie options. As a result, company's failure to diversify its offerings has made it less appealing to a broader range of consumers.

- a) Discuss the key factors that are affecting the decreasing demand for Cairns Foods' products. [12 marks]
- b) Based on the case study, suggest potential solutions that Cairns Foods could implement to arrest the problem of decreasing demand. [13 marks]

SECTION C (ANSWER ANY ONE QUESTION)

1. Discuss the importance of price elasticity and its implications on the profitability of Bakers Inn Zimbabwe **(25 marks)**.
2. Discuss the significance of a commercial farmer analyzing revenue and costs in their operations **(25 marks)**.
3. Analyze the consequences of market failure in Zimbabwe's mining Sector **(25 marks)**.