

VF Agri Past Papers
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**SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF AGRICULTURE**

COURSE: Fundamentals of Economics (ECO101)

TIME: 2 HRS 30 MINS

December 2009

INSTRUCTION: **DO QUESTION (1) AND ANY OTHER THREE QUESTIONS**

#E7

1. The following table provide information on price, income and cross elasticity for some selected product sold in Country

Table 1 Income and price elasticities

	Income elasticities	Price elasticities
Butter	-0.13	- 0.13
Margarine	0.26	- 1.63

Table 2. Cross Elasticities

	Beef	lamb	pork
Beef	1.24	- 0.06	0.10
lamb	0.15	- 1.75	0.03
pork	0.25	0.03	-1.86

- (a) **Define** (i) cross elasticity (ii) price elasticity (iii) income elasticity.
(iv) normal goods (vi) inferior goods 10 mks
- (b) From the tables, give an example of: (i) inferior (ii) normal (iii) complements
(iv) substitutes 4 mks
- (c) If sellers of margarine wanted to increase their total revenue what should be
done to price? 2 mks
- (d) Interpret the cross elasticity co-efficient for beef and pork.
2 mks
- (e) Interpret the price elasticity co-efficient of demand for butter. 2 mks
- (f) Use properly labeled diagrams to illustrate:
(i) demand curve (ii) excess demand (iii) shift in demand
(iv) elastic demand curve (v) inelastic demand curve 12 mks
- (g) Identify four factors that can cause a shift of the demand curve 4 mks
- (h) At price \$4.00, Jack can sell 3000 units of good X and at price \$3.50 he
can sell 4000 units. Calculate the arc elasticity of demand and give
an interpretation of your result . 4mks
- (g) Why is the price elasticity coefficient written with a negative sign? 2 mks

2. The following is a production function for an enterprise. The price of the variable input is \$11.00, and the price of the output is \$4.00. Fixed costs are \$30.00.

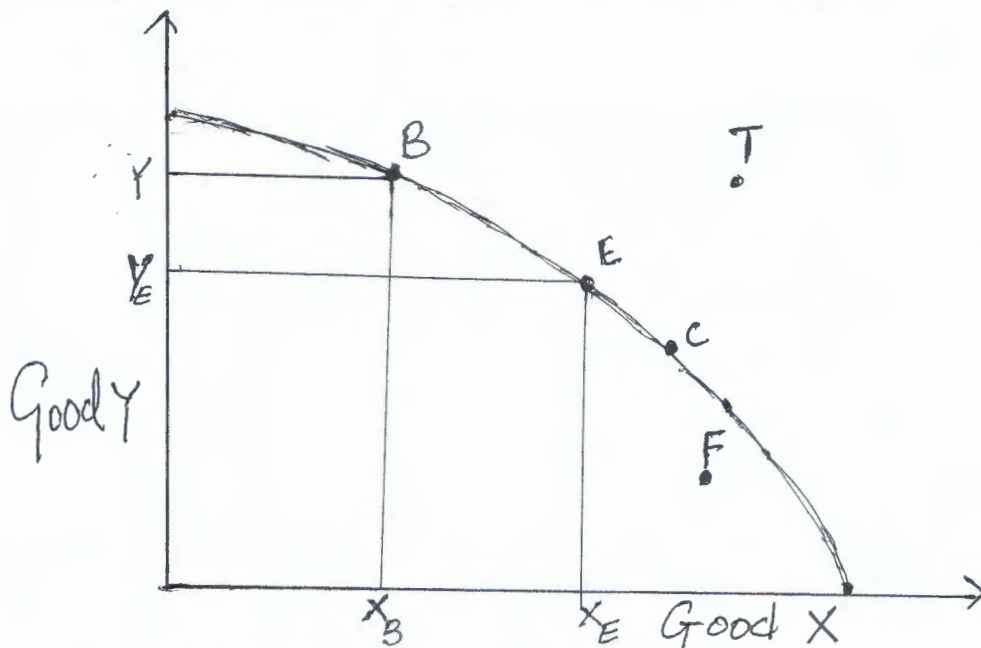
Units of input	1	2	3	4	5	6	7	8	9	10
Units of output	10	25	45	60	70	77	82	85	86	84

- (a) **Define** the term “ **production function**” 2 mks
- (b) **Sketch** the total product curve 8 mks
- (c) **Indicate the stages** of production on the curve drawn in (b) above 3 mks
- (d) At what level of input does diminishing marginal returns sets in 1 mk
- (e) What is the value of the following at 5 units of the variable input
i) TP ii) TC iii) AC iv) MP v) Profit 6 mks

3. Economists are interested in market structure because the conduct of economic agents vary greatly across markets.
- (b) **Define** the term market structure 2 mks
 - (c) **List four** types of market structures 4 mks
 - (d) **Give** an example of a good/service sold in any two of the structures in (c) above 2 mks
 - (e) Write three factual statements on any three of the market structures. 9 mks
 - (f) On a properly labeled diagram, represent the demand curve a firm in a perfectly competitive market 3 mks

4. (a) Explain the statement “**man is an economic animal**” 2 mks
- (b) Illustrate the economic problem 5 mks
- (c) **List four** productive activities that farmers engage in. 4 mks
- (d) **State** the resources required for production to take place. 8 mks
- (e) **State three** ways in which the productivity of any one of the resources identified in (c) above can be enhanced 6 mks

- 5 Study the diagram below and answer the questions which follow.



- a. **Define** the term “production possibility curve.” 3 mks
- b. **List** two assumptions underlying the construction of the PPF 4 mks
- c. What does **point C** represent 2 mks
- d. **Write two** factual statements about point F 4 mks
- e. Assume that the country is producing at point B, what is the **opportunity cost** of shifting production to point E 4 mks
- f. What does **point T** represent? 3 mks