



SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF AGRICULTURE
SEMESTER II EXAMINATIONS

COURSE: **Fundamentals of Economics (ECO101)** ADYr 1
TIME: 2 1/2 HRS APRIL, 2011

#E9

INSTRUCTIONS: 1. This paper consists of **FIVE** (5) questions
2. **DO QUESTION (1) AND ANY OTHER THREE QUESTIONS**

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

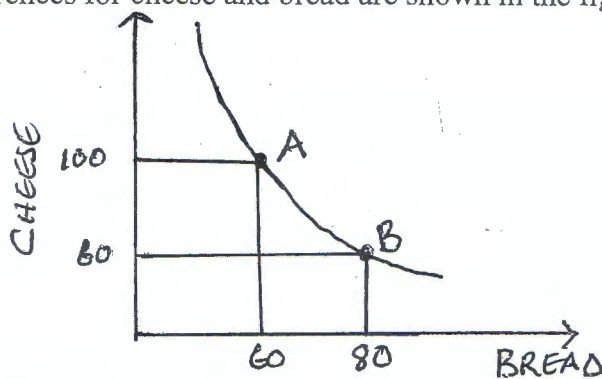
Table 1 Income and price elasticities

Products	Income elasticities	Price elasticities
Liquid milk	-0.13	0.13
cheese	0.26	- 1.63

Table 2. Cross Elasticities

Products	Beef & veal	Mutton & lamb	pork
Beef & veal	1.24	- 0.06	0.10
Mutton & lamb	0.15	- 1.75	0.03
pork	0,25	0.03	-1.86

- (i) **Define** (a) cross elasticity (b) price elasticity (c) income elasticity. 6mks
- (ii) From the tables, give an example of: (a) inferior good (b) normal good 4mks
- (iii) If sellers of cheese wanted to increase their total revenue what should be done to price? Explain why your strategy would work 3 mks
- (iv) Interpret the income elasticity co-efficient of demand for cheese. 2 mks
- (b) Use properly labeled diagrams to illustrate:
 - (i) demand curve (ii) excess demand (iii) budget line 9mks
 - (ii) Identify four factors that can cause a shift of the demand curve for cheese 4 mks
- (c) Robin's preferences for cheese and bread are shown in the figure below.



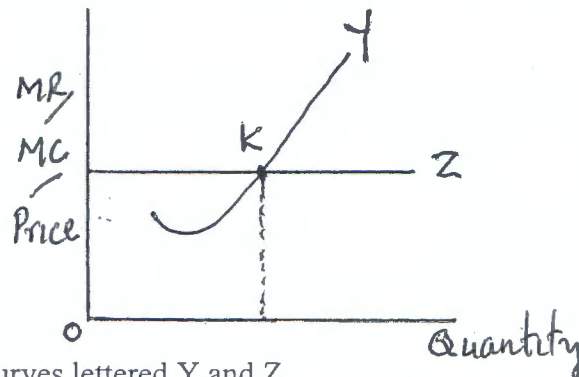
- (i) Name the curve in the figure above 2mks
- (ii) Calculate the MRS between points A and B and interpret this measure. 4mks
- (d) Assume that Robin spends his budget buying just two goods, bread and cheese. State the equilibrium condition for Robin. 2 mks
- (e) Cheese is produced and sold in a competitive market with the following features: Quantity demanded (Q_d) = $212 - 20P$, Quantity Supplied (Q_s) = $20 + 4P$, where P is price.
 - (i) What are the equilibrium price and quantity 4 mks

2. A nation's economy goes through periods of ups and downs in the level of its business activity.
- (a) Define the term economy 2 mks
 - (b) State two factual statements about a laissez-faire economy. 4 mks
 - (c) Use a properly labeled diagram to illustrate the four phases of a business cycle. 7 mks
 - (d) State two consequences of fluctuating business activity 4 mks
 - (e) Comment briefly on one macro-economic policy used to stimulate business in the economy. 3 mks

3. Economists are interested in market structure because the conduct of economic agents vary greatly across markets.

- (a) **Define** the term market structure. 2 mks
- (b) **List four** types of market structures. 4 mks
- (c) **Give** an example of a good/service sold in any two of the structures in (b) above. 2 mks
- (d) Write two factual statements on any three of the market structures. 6 mks
- (e) Present a graph depicting the profit maximization behavior of a firm in monopolistic market. 6mks

4. The figure below depicts the profit maximization behavior of an agri-business.



- (a) Name the curves lettered Y and Z 2 mks
- (b) Write one factual statement about the output level associated with point K in the figure above. 2 mk
- (c) What type of market structure is depicted in the above-figure. 2mks
- (d) Why wouldn't the farmer be satisfied with output level of 800 units. 2 mks
- (e) Assume that the firm in the figure above is making profits, where in relation to point K is its AC curve? 2 mks
- (f) Write one factual statement about the elasticity of demand of the firm's output. 2 mks
- (g) Draw the supply curve of that firm and state three factors that can cause an outward shift of the curve. 8 mks

- 5.
- (a) **State two** reasons for government involvement in the agricultural sector 4mks
 - (b) **Identify two** forms of government involvement in agriculture in St. Lucia. 4mks
 - (c) **Identify two** problems/constraints faced by farmers in St. Lucia 2mks
 - (d) **State four** effects of trade liberalization/globalization on the banana sector in St. Lucia. 8mks
 - (e) Distinguish between a subsidy and a tax. 2mks