

BOWEN UNIVERSITY
COLLEGE OF MANAGEMENT AND SOCIAL SCIENCES
ECONOMICS PROGRAMME
BSC DEGREE EXAMINATION
FIRST SEMESTER 2020/2021 ACADEMIC SESSION

COURSE CODE: ECN 101 (3 Credits)

COURSE TITLE: Applied Economics
TIME ALLOWED: 2 hours 30 minutes

INSTRUCTION:

SECTION A (20 Marks)

Write out the correct option in each of the following

1. An inferior good is one for which an increase in income causes (a) decrease in supply (b) increase in supply (c) increase in demand (d) decrease in demand
2. From the list of books, pen, food, laptop and phone, a man bought books for N700, what is his opportunity cost? (a) pen (b) 700 (c) book (d) laptop, pen, food and phone
3. If the quantity demanded of a good is sensitive to a change in the price of that good, demand is said to be (a) price elastic (b) price inelastic (c) perfectly elastic (d) perfectly inelastic
4. Which of the following statements is true about a market economy? (a) With a large enough computer, central planners could guide production more efficiently than markets. (b) Market participants act as if guided by an invisible hand to produce outcomes that maximize social welfare. (c) The strength of a market system is that it tends to distribute resources evenly across consumers. (d) Taxes help prices communicate costs and benefits to producers and consumers.
5. Which of the following is not a factor of production? (a) land (b) labour (c) money (d) capital
6. Points on the production possibilities frontier are (a) inefficient. (b) normative. (c) unattainable. (d) efficient.
7. Economic growth is depicted by (a) shift in the production possibilities frontier outward. (b) movement from inside the curve toward the curve. (c) shift in the production possibilities frontier inward. (d) movement along a production possibilities frontier toward capital goods.
8. Which of the following statements is normative? (a) Large government deficits cause an economy to grow more slowly (b) People work harder if the wage is higher (c) The unemployment rate should be lower (d) Printing too much money causes inflation.
9. If an increase in the price of blue jeans leads to an increase in the demand for board shorts, then blue jeans and board shorts are likely to be (a) inferior goods (b) normal goods. (c) negatively related (d) substitutes.

10. If an increase in consumer incomes leads to a decrease in the demand for camping equipment, then camping equipment is (a) a normal good. (b) a Giffen good (c) an inferior good. (d) a substitute good.

PART II

Indicate whether each of the following statements is **TRUE** or **FALSE**

11. The graphical relationship between price and quantity purchased of a particular commodity is called demand curve.
12. An increase in subsidies and reduction of taxes will shift the supply curve to the left.
13. The demand for a product for the production of another commodity is referred to composite demand.
14. The economic good whose demand decreases when the consumer's income increase, ceteris paribus, is classified as inferior goods.
15. Given the demand and supply functions for a particular commodity as $Q_d=136-4p$ and $Q_s=100+2p$ respectively, the market price is
16. The responsiveness of quantity demanded for a commodity to changes in consumers income is called price elasticity.
17. Two commodities are complement if the co-efficient of their cross price elasticity of demand is positive.
18. If the quantity demanded of a commodity increases from 100 to 140 when unit price falls from \$ 50 to \$ 45 , the co-efficient of price elasticity of demand is
19. Given that any quantity of a particular commodity can be bought at a given price, the demand for the commodity is said to be elastic.
20. The market price of a product will reduce if an increase in its demand and its supply remains constant and perfectly price inelastic

SECTION B (30 Marks)

Attempt **ONE** question from this section

1. The following table gives the Marginal Utilities for the consumption of Apple (MUA) and Banana (MUB) by a particular rational consumer who has money income of N220 to spend on the commodities daily. The unit prices of Apples and Banana are given as N20 and N40 respectively

Quantity (Units)	MU(A)	MU(B)
1	-	-
2	8	36
3	6	24

4	4	12
5	2	6

You are required to:

- i. Derive the equation of the budget line.
- ii. State the consumer equilibrium conditions and determine the units of Apple and Banana a rational consumer will buy at that point of equilibrium.

(b) A consumer increased his consumption of a commodity from 200 units to 280 units as a result of a decrease in price from N30 to 50. (i) Determine the coefficient of price elasticity of demand (ii) Explain your answer.

2.(a) The following table shows possible combinations of wrist watch and rice that may be produced in a fully employed economy.

Production combination	Rice (Bags)	Butter (Tins)
A	0	90
B	1	80
C	2	60
D	3	40
E	4	20
F	5	0

You are required to:

- a. Plot the production possibilities curve for the economy.
- b. Indicate the point on your diagram that shows attainable but inefficient use of resources.
- c. Explain why the points outside the curve are unattainable.

b. $Q_d = 140 - 0.02 P$

$Q_s = -10 + 0.01 P$, Determine the equilibrium price and quantity

SECTION C (20 Marks)

Attempt ONE question from this section

1. (a) With the aid of appropriate diagram(s), differentiate between change in demand and change in quantity demanded.

(b) Explain the **THREE** types of return to scale

(c) List and Explain **TWO** factors to be considered before siting a firm

2. (a) Write short and clear notes on the following, with examples where appropriate:

i. Elasticity of demand

ii. An indifference curve

iii. Market structure

iv. Positive and normative economics

(b) Mention and Explain **FOUR** sources of monopoly power

(c) List and explain **THREE** features of perfect competitive market