

ECS1501/105/1/2011



STREPIESKODE

BAR CODE

**Department of  
ECONOMICS**

**Economics I  
(ECS1501)**

**Tutorial Letter 105/2011**

**First semester**

**Information on the examination  
in May 2011**

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**Dear Student**

This tutorial letter contains the ECS1501 examination paper for May 2010 (only section B) with its answers, since the examination paper in May is consisting of only multiple choice questions and guidelines on how to answer multiple-choice questions. Important information on the discussion classes and Reading and Writing Centres is also included.

**1 TRANSFER OF THE EXAMINATION**

If a student applies to transfer his/her ECS1501 examination (for any valid reason) to the following examination period, he/she should bear in mind that this will be subject to his/her obtaining admission to the examination in the initial registration period. In other words, if the student is registered for the first semester (and is supposed to write the examination in May 2011) and he/she wishes to transfer his/her examination to the October 2011 session, he/she must still submit the compulsory assignments for the first semester during the first semester (before the middle of April 2011) to gain admission to the examination. All the other assignments that will contribute to his/her semester mark must also be submitted. No assignments can be submitted during the following semester.

If an examination is transferred to the following examination period, it will be deemed the student's second and final examination opportunity for that academic period.

Note that students who qualified for a supplementary examination are not allowed to transfer their examination to the following examination period.

An examination may only be deferred once. If (for whatever reason) you do not write the deferred examination or obtain a fail mark in the deferred examination, you will have no alternative but to reregister for this module.

**Please contact the Examination Department or send an email to [study-info@unisa.ac.za](mailto:study-info@unisa.ac.za) if you wish to transfer your examination to the following examination period.**

**2 FORMAT OF THE EXAMINATION PAPER**

The format of the examination paper has changed from previously a written and multiple choice sections to only multiple choice questions. The information regarding the format of the examination paper is also communicated in Tutorial letter 101/3/2011 on pp 20-21.

**You will receive a multiple-choice examination paper plus a mark-reading sheet. This implies that you must complete the entire paper on the mark-reading sheet. The examination paper plus the mark-reading sheet are handed to the invigilator.**

**IMPORTANT: You need to complete and submit at least Assignment 01 and/or 02 in time to get admission to the examination.**

The use of nonprogrammable calculators is permissible.

The two-hour examination paper will consist of **70 multiple-choice questions** which must **all** be answered on the mark-reading sheet which will be provided. There is only **ONE** correct alternative per question. Each question will have one stem with four distracters.

The 70 MCQ's comprises of a variety of questions as outlined below:

- |                                      |              |
|--------------------------------------|--------------|
| • Theoretical questions              | 23 questions |
| • Questions relating to graphs       | 17 questions |
| • Questions relating to calculations | 15 questions |
| • Application questions              | 15 questions |

You will **not** be required to construct any graphs in the examination. I have however included 11 graphs in the examination paper which you must be able to interpret and analyse. Therefore, I request that you still exercise the construction of graphs during your preparation for the examination since it will assist with the interpretation and analyses. Some of the questions in the examination paper requires that you construct the graph in rough to be able to derive the correct option.

Although all the graphs in the module are important, the graphs below are of utmost importance:

- Study unit 2
- Study units 4-6
- Study units 9-11

The calculations are also an integral part of the examination paper. Students must know the different formula by heart, since no formula sheet is included in the examination paper. The calculations are forthcoming from the following study units:

- Study unit 1
- Study unit 4
- Study unit 6
- Study unit 8
- Study units 9-11

We from time to time also provide graphs with numbers and then require that you do certain calculations such as the total revenue, total cost, profit/loss, average variable cost and average fixed cost using the information in the graph. Students find these calculations extremely difficult and therefore I request that you allocate time in your preparation to this aspect.

We have incorporated a new section in the paper, namely the application questions. Examples of application questions are:

- Wages of train drivers increase. At the same time, incomes of consumers generally increase. In the market for train rides, we should expect to see curves shifting. The supply curve will .... and the demand curve will .... Assume train rides are viewed as a normal good.

- The National Energy Regulator of South Africa (NERSA) approved electricity tariff increases of about 25% with effect from 1 April 2011. What do you think will most likely happen to the total quantity of electricity demanded and total revenue of ESKOM after a year?
- Suppose you are the owner of a supermarket. Each week you offer some goods at **special prices**. Would it make sense to offer specials on goods with a low price elasticity of demand or those with a high price elasticity of demand? Regarding this question we formulate questions that address the type of elasticity coefficient, changes in quantity demanded and total revenue.

The mark allocation per study unit is as follows:

STUDY UNIT	MARKS +/-
Study unit 1	5,70
Study unit 2	7,14
Study unit 3	1,42
Study unit 4	17,00
Study unit 5	0
Study unit 6	13,00
Study unit 7	0
Study unit 8	14,00
Study unit 9	17,00
Study unit 10	13,00
Study unit 11	12,00

To safeguard yourself against the slim possibility of a lost mark-reading sheet, you must write your choices in the space that will be provided on the examination paper. Each question will be worth 1,428 mark so that the total of the examination paper adds up to 100 marks. Note that we do not mark negatively — each correct answer earns 1,428 marks.

**Important! In the May 2011 examinations, you will be tested on the chapters 1, 2, 3, 7, 8, 9, 11, 12, 14 of the prescribed textbook and study unit 10 in the study guide.**

**PASS REQUIREMENT:** As explained in Tutorial Letter 101/2011, you will need a final mark of 50% (your semester mark + your examination mark) to pass this module.

**Work through the questions in the study guide because they have been taken from old examination papers and assignments.**

**A number of students have asked to be supplied with old examination papers to help them prepare for the examination. Previous examination papers are available on myUnisa. The purpose of these examination papers is to familiarise yourself with the type of questions that we set for each study unit. Just remember that the format of the examination paper is different from that of previous examination papers.**

**It is insufficient that students start to prepare for the examination a few days before it takes place by working through old examination papers. If this is how you approach your examination preparation, I guarantee that you will be less successful and may even fail the module. Start your preparation as soon as possible and follow the study programme in Tutorial Letter 101/2011 to ensure that you do well in this module!**

### 3 HOW TO WRITE MULTIPLE-CHOICE TESTS

(Source: Adapted from <http://www.sdc.uwo.ca/learning/mcwrit.html>)

In this section, we give you guidelines on how to answer multiple-choice questions. Study the guidelines carefully so that you will know what to do when you have to answer this type of questions.

***Students who are successful in multiple-choice tests usually do the following:***

**(1) Spend time on understanding the question *before* reading the alternatives.**

- You will more likely choose the correct answer if you have thought about the question without being confronted with all the information that is presented in the alternatives. Begin by covering the alternatives with the mark-reading sheet. Then carefully read the question before you look at the alternatives. Circle or underline key words. Pay special attention to words that narrow response options such as "principal" function, "primary" criticism and "major" conclusion.
- Think about from where in your prescribed book, lecture notes or course material the question has been taken. Recall a few points, including related headings or subheadings. If applicable, do calculations.

**(2) Predict an answer *before* looking at the alternatives.**

While not all questions are written so that an answer can be predicted without looking at the alternatives, many are. By predicting the answer before you look at the alternatives, you are less likely to be influenced by an alternative that is incorrect. Even if you cannot predict an answer, you might be able to identify closely related concepts that will likely crop up in alternatives.

**(3) Check the format of the alternatives.**

Uncover the alternatives. Do the options allow for only one correct alternative, or does a response allow for two or more alternatives to be correct? For example: The response (d) indicates that both (a) and (b) are correct.

**(4) Read each alternative carefully.**

Read each alternative carefully so that you can understand it and not just recognise it. You might recognise the information as being from the module, but does it answer the question that is being asked? Again, pay careful attention to qualifying words. Keep the question in mind and cross off alternatives that you think are incorrect, check off the alternatives that you think are correct and put a question mark next to the alternatives that you are uncertain about.

**(5) Choose the alternative that best answers the question.**

- Mark the correct alternative on your mark-reading sheet carefully. If you do not know the answer, reread the question. If two options still look equally appealing, compare each to the question and make sure that the one you eventually choose answers what is asked or is the "neatest" fit (ie does not require any additional information in order to be correct). If you are still unsure, guess.
- If you are not sure that you have made the correct choice, draw a big question mark beside the question and move on to the next one. Avoid spending ages on one

question. If time permits after completing the whole test, return to any problematic questions that you flagged earlier.

**(6) Review answers**

If there is still time left after you have completed all the questions, review your answers. Change an answer only if you can logically justify the change. Ensure that the responses on your examination paper and the mark-reading sheet correspond.

***Students who are successful in multiple-choice tests usually AVOID doing the following:***

- **Rely on recognition**

Do not select an alternative simply because you recognise the information as being from the course. It can be a true statement in its own right, but you have to make sure that it answers the question that is being asked.

- **Rely on myths and misconceptions**

There are many poor strategies for writing multiple-choice tests, including the longstanding "if in doubt, pick 3" myth. Do not pick "3" every time when you are unsure of the answer; instead, reflect on the question and the alternatives (as explained above). Also, do not choose an answer on the basis of a pattern of responses. For example: "This can't be another '2' because I've chosen that answer for the last three questions." It could well be another [2] or perhaps one of the earlier responses was wrong. Choose an answer on the basis of the strategies discussed above.

- **Dismiss alternatives because they seem too obvious**

Do not dismiss an alternative because it seems too obvious an answer. While some questions might require a more complex application of concepts, others might only require straight recall. If you are well prepared for the examination, these questions might appear simple. Keep this in mind if you tend to dismiss some alternatives because you assume that multiple-choice examinations are tricky and therefore the answer cannot be so obvious.

- **Run out of time**

Because some multiple-choice questions will take longer than others, it does not make sense to allocate an equal amount of time to each question even though they are often weighted the same. Instead, track your progress at intervals. Halfway through the test, are you approximately halfway through the questions? If you are behind, pick up your pace. If you are unsure about an answer, put a big question mark next to it and return to it if there is any time left when you have completed the all the other questions.

#### **4 THE EXAMINATION: MULTIPLE-CHOICE QUESTIONS**

The examination paper in October will consist of 70 multiple-choice questions, **all** of which you will have to answer on the mark-reading sheet that will provided. Each answer will count 1,428 marks, which means that the total for the examination paper is 100 marks. There will be only **one** correct alternative per question.

It is vitally important that during your preparation for the examination, you work through the true/false questions at the end of each section in the study guide. The answers to the true/false questions appear at the end of the study guide.

The following 40 questions come from the May 2010 examination paper. These questions give you a good indication of the questions that will be asked in the examination. You will therefore know what to expect, although the exact same questions will not necessarily be repeated in the examination. It is essential that you **understand** the work and not merely memorise it.

**Please note that these are only examples. You should NOT study these questions as if they are the ones that will be asked in the examination.**

- [1] Economics can best be defined as \_\_\_\_\_.
- [1] the interaction between macro and micro considerations
  - [2] the study of the behaviour of people and institutions in the production, distribution and consumption of scarce goods
  - [3] the empirical testing of value judgments through the use of induction and deduction
  - [4] the use of policy to refute facts and hypotheses
- [2] The study of economics is primarily concerned with \_\_\_\_\_.
- [1] keeping private businesses from losing money
  - [2] demonstrating that capitalistic economies are superior to socialistic economies
  - [3] choices that are made in seeking to use scarce resources efficiently
  - [4] determining the most equitable distribution of society's output
- [3] You should decide to go to a movie \_\_\_\_\_.
- [1] if the marginal cost of the movie exceeds its marginal benefit
  - [2] if the marginal benefit of the movie exceeds its marginal cost
  - [3] if your income will allow you to buy a ticket
  - [4] because movies are inherently good products
  - [5] if the opportunity cost of the popcorn is low
- [4] Which one of the following **does not** refer to the assertion that "There is no such thing as a free lunch" \_\_\_\_\_.
- [1] there are always trade-offs between economic goals
  - [2] all production involves the use of scarce resources and thus the sacrifice of alternative goods
  - [3] marginal analysis is not used in economic reasoning
  - [4] choices need not be made if behaviour is rational



- [5] Which of the following is a **correct** statement?
- [1] Economic concepts or laws which are valid during depression are necessarily valid during prosperity.
  - [2] Although they are not quantitatively exact, economic laws are useful because they allow us to predict and therefore control or adjust to events.
  - [3] Economics is as scientific as physics and chemistry because economic laws are as quantitatively precise as the laws of physics or chemistry.
  - [4] Because economics is concerned with questions of "ought", it is a branch of applied ethics and it is not scientific.
- [6] Which of the following statements is/are **incorrect**?
- (a) The working of the economy is based on the economic interdependence of the three major parties, namely households, enterprises and the government.
  - (b) The economic process is a continuous one.
  - (c) Every living person is a consumer.
  - (d) Economic problems are solved by individuals working on their own.
- [1] Only c
  - [2] Only a, b and d
  - [3] Only d
  - [4] All the statements are incorrect.
- [7] Which of the following is **not** a contributor to the problem of scarcity?
- [1] the limited resources available to satisfy human wants
  - [2] inadequate distributive services
  - [3] excess production
  - [4] a shortage of skilled labour
- [8] Which **one** of the following is an **incorrect** description of the function of households?
- [1] Households are the basic decision making units in an economy.
  - [2] Households are the basic productive units in the economy.
  - [3] Households consume goods and services.
  - [4] Households are the owners of factors of production.

- [9] Which of the following statements is/are **correct**?
- (a) Opportunity costs are benefits that are foregone.
  - (b) The production possibility curve represents all combinations of goods and services that can be produced using limited resources efficiently to their full capabilities.
  - (c) Points inside the production possibilities curve represent the overutilisation of resources.
  - (d) Points outside the production possibilities curve represent combinations of goods and services that are attainable given the limited resources.
- [1] Only c and d
  - [2] Only b, c and d
  - [3] Only a and b
  - [4] Only a
- [10] Which one of the following is **not** a stock variable?
- [1] Population
  - [2] Trade balance of the balance of payments
  - [3] Unemployment
  - [4] Imports and exports
- [11] In a free-market economy, the price of a good or service is determined by \_\_\_\_\_
- [1] the market demand and market supply
  - [2] an individual consumer's demand curve and an individual firm's supply curve
  - [3] changes in income and tastes of consumers
  - [4] the government
- [12] If the cost of flour rises and flour is a major ingredient in bread, then \_\_\_\_\_.
- [1] the demand curve for bread shifts to the left
  - [2] the supply curve of bread shifts to the left
  - [3] the supply curve of bread shifts to the right
  - [4] both the demand and supply curves of bread shift to the right
- [13] Katlego graduates from college where she earns R3 000 a month working as a research assistant and takes a job as a graduate teacher where she now earns R8 000 a month. She gives away her old motorcycle and buys a car. In this instance, \_\_\_\_\_.
- [1] a motorcycle is an inferior good but a car is a normal good
  - [2] a car is an inferior good and a motorcycle is a normal good
  - [3] cars and motorcycles are complementary goods
  - [4] the demand curve for cars is upward sloping

[14] Orange juice and mango juice are normal goods. The income elasticity of demand of these goods is \_\_\_\_\_.

- [1] zero
- [2] negative
- [3] positive
- [4] price inelastic
- [5] price elastic

[15] Johannes derives the following levels of satisfaction from consuming apples. At what quantity is total utility from consuming apples maximised after which it begins to decrease?

Options	Quantity of apples	Marginal utility
[1]	3	15
[2]	4	10
[3]	5	5
[4]	6	0
[5]	7	-3

[16] A decrease in the price of cameras will \_\_\_\_\_.

- [1] cause the demand curve for photographic film to become vertical
- [2] shift the demand curve for photographic film to the right
- [3] shift the demand curve for photographic film to the left
- [4] not affect the demand for photographic film

[17] Suppose that a severe frost destroys one-half of Tzaneen's orange crop. As a result, we would expect \_\_\_\_\_.

- [1] an increase in the demand for oranges
- [2] a rise in the price of grapefruit
- [3] a decline in the price of oranges
- [4] a decline in the price of prunes

[18] The demand for a product is inelastic with respect to price if \_\_\_\_\_.

- [1] consumers are largely unresponsive to a per unit price change
- [2] the elasticity coefficient is greater than one
- [3] a drop in price is accompanied by a decrease in the quantity demanded
- [4] a drop in price is accompanied by an increase in the quantity demanded

[19] If the price of product K decreases, the demand for close substitute product M will \_\_\_\_\_.

- [1] become highly elastic
- [2] shift to the right
- [3] shift to the left
- [4] not be affected

- [20] The price elasticity of demand coefficient indicates \_\_\_\_\_.
- [1] buyer responsiveness to price changes
  - [2] the extent to which a demand curve shifts as incomes change
  - [3] the slope of the demand curve
  - [4] how far business executives can stretch their fixed costs
- [21] The law of diminishing returns indicates that \_\_\_\_\_.
- [1] as extra units of a variable resource are added to a fixed resource, marginal product will decline beyond some point
  - [2] because of economies and diseconomies of scale, a competitive firm's long-run average total cost curve will be U-shaped
  - [3] the demand for goods produced by purely competitive industries is downward sloping
  - [4] beyond some point, the extra utility derived from additional units of a product will yield the consumer smaller and smaller extra amounts of satisfaction
- [22] Fixed cost is \_\_\_\_\_.
- [1] the cost of producing one more unit of capital, say, machinery
  - [2] any cost which does not change when the firm changes its output
  - [3] average cost multiplied by the firm's output
  - [4] usually zero in the short run
- [23] If a firm in a purely competitive industry is confronted with an equilibrium price of R5, its marginal revenue \_\_\_\_\_.
- [1] may be either greater or less than R5
  - [2] will also be R5
  - [3] will be less than R5
  - [4] will be greater than R5
- [24] The short run is characterised by \_\_\_\_\_.
- [1] plenty of time for firms to either enter or leave the industry
  - [2] increasing, but not diminishing returns
  - [3] at least one fixed resource
  - [4] zero fixed costs
- [25] Regarding cost theory, which **one** of the following is **incorrect**?
- [1] When output changes, the average cost changes.
  - [2] Total fixed cost does not change with changes in output.
  - [3] Average cost is obtained by dividing the change in total cost by the change in output.
  - [4] Total variable cost is obtained by subtracting total fixed cost from total cost.

- [26] Which of the following statements is/are **correct** with reference to the long-run position under conditions of perfect competition?
- (a) The factors of production must remain immobile, that is, they are unable to move freely from one market to another.
  - (b) New firms can enter the industry, but existing firms cannot leave the industry.
  - (c) The industry will only be in equilibrium if all firms are making economic profits.
- [1] All the statements are correct.
  - [2] Only a and b
  - [3] Only a and c
  - [4] Only b and c
  - [5] None of the statements is correct.
- [27] Which of the following is **not** an important feature of monopolistic competition?
- [1] Each firm produces a differentiated (heterogeneous) product.
  - [2] There can be a large number of firms in the industry.
  - [3] Under monopolistic competition there is an incentive for sellers (suppliers) to advertise their products.
  - [4] Each firm is faced with a horizontal (perfectly elastic) demand curve for its products.
- [28] Which of the following statements is/are **correct** with reference to the monopoly?
- (a) The demand curve for its product is the same as the market demand curve for the product of the industry.
  - (b) The firm faces a perfectly elastic demand curve.
  - (c) The monopolistic firm can continue to earn economic profits in the long run, as long as the demand for its product remains intact.
- [1] All the statements are correct.
  - [2] Only a and b
  - [3] Only a and c
  - [4] Only b and c
  - [5] None of the statements is correct.
- [29] Which of the following statements is **correct**?
- [1] The supply of labour in a particular industry will increase if nonmonetary benefits are reduced.
  - [2] The supply of labour in a particular industry will increase if wages in other occupations are increased.
  - [3] The individual labour supply curve has a downward (negative) gradient.
  - [4] A minimum wage rate that is imposed above the equilibrium wage rate will cause unemployment.

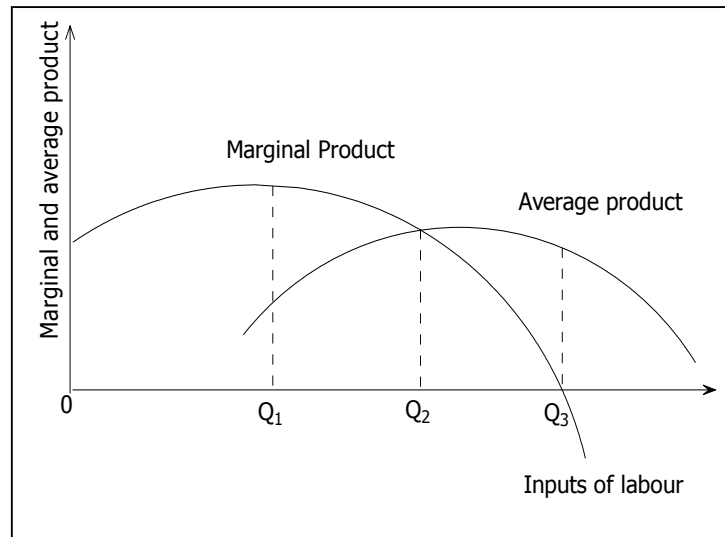
Answer questions 30 and 31 with reference to the following table, which shows the short-run production function of a Barbie doll manufacturer:

Number of machines	Number of workers	Total product (Barbie dolls/day)
8	0	0
8	1	6
8	2	14
8	3	23
8	4	30
8	5	34
8	6	36

- [30] What is the average product of labour when two workers are employed?
- [1] three Barbie dolls
  - [2] seven Barbie dolls
  - [3] eight Barbie dolls
  - [4] 14 Barbie dolls
- [31] Diminishing marginal returns set in when the \_\_\_\_\_ worker is added to the production process.
- [1] second
  - [2] third
  - [3] fourth
  - [4] fifth
- [32] When the marginal product of labour is less than the average product of labour ———.
- [1] the average product of labour is decreasing
  - [2] total product is increasing at an increasing rate
  - [3] the marginal product of labour is increasing
  - [4] the marginal product of labour curve is positively sloped

Answer question 33 using figure 1 below.

**Figure 1**



[33] In figure 1, variable inputs of labour are being added to a constant amount of property resources. Marginal cost will be at a minimum for this firm when it is hiring —  
\_\_\_\_\_.

- [1] Q3 workers
- [2] Q2 workers
- [3] Q1 workers
- [4] more than Q3 workers

[34] Under perfect competition, profit is maximized at the point where

- [1] marginal revenue exceeds marginal cost.
- [2] marginal revenue is less than marginal cost.
- [3] marginal revenue equals marginal cost.
- [4] marginal revenue equals total cost.

The following table represents the short-run total cost schedule of an energy drink manufacturer. Consider the table, and then answer questions 35 and 36.

Labour (workers per day)	Output (energy drinks per day)	Total cost (R)
0	0	40
1	3	70
2	8	100
3	12	130
4	14	160
5	15	190

[35] When output increases from three to eight energy drinks, the marginal cost of producing one energy drink is \_\_\_\_\_.

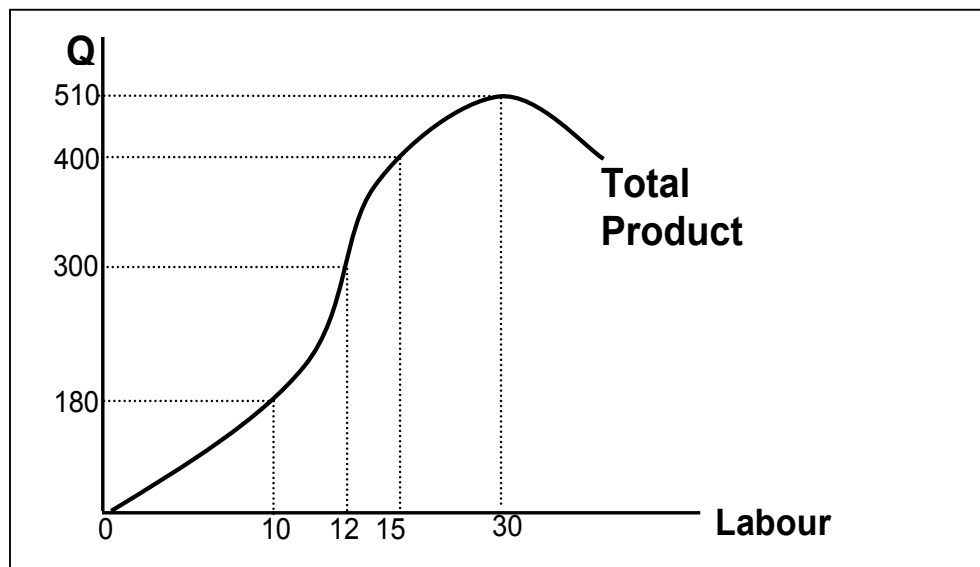
- [1] R5
- [2] R6
- [3] R12,50
- [4] R20
- [5] R30

[36] The average variable cost to the firm when three energy drinks are produced is \_\_\_\_\_.

- [1] R10
- [2] R13,33
- [3] R23,33
- [4] R30
- [5] R70

Question 37 is based on figure 2.

Figure 2



[37] At what level of labour inputs do diminishing marginal returns become negative?

- [1] 10
- [2] 12
- [3] 15
- [4] 30
- [5] more than 30



- [38] Normal profit implies that \_\_\_\_\_.
- [1] economic profit is zero
  - [2] all factors employed are earning an amount equal to their opportunity costs
  - [3] firms are earning enough to cover all the costs of production
  - [4] price must be greater than average variable cost
  - [5] all of the above are correct
- [39] If economic profits are being made in a perfectly competitive market, then firms will \_\_\_\_\_ the market. This will \_\_\_\_\_ the extra revenue firms earn for each unit of output sold, and economic profits will \_\_\_\_\_.
- [1] enter; increase; increase
  - [2] enter; increase; decrease
  - [3] enter; decrease; decrease
  - [4] leave; decrease; increase
  - [5] leave; increase; increase
- [40] Restricting entry into an occupation will \_\_\_\_\_ supply into that occupation and \_\_\_\_\_ wages.
- [1] increase; increase
  - [2] increase; decrease
  - [3] decrease; increase
  - [4] decrease; decrease
  - [5] decrease; not change

## 5 ANSWERS TO THE MULTIPLE-CHOICE QUESTIONS

The correct options are as follows:

1	[2]	11	[1]	21	[1]	31	[3]
2	[3]	12	[2]	22	[2]	32	[1]
3	[2]	13	[1]	23	[2]	33	[3]
4	[3]	14	[3]	24	[3]	34	[3]
5	[2]	15	[4]	25	[3]	35	[2]
6	[3]	16	[2]	26	[5]	36	[1]
7	[3]	17	[2]	27	[4]	37	[5]
8	[2]	18	[1]	28	[3]	38	[5]
9	[3]	19	[3]	29	[4]	39	[3]
10	[4]	20	[1]	30	[2]	40	[3]

## 6 DISCUSSION CLASSES

### 6.1 Dates and times of discussion classes

See Tutorial Letter ECSALLR/301/3/2011, for the relevant information.

## 6.2 Group discussion classes

The group discussion classes will deal only with the sections that are indicated in the study guide for Economics 1A (ECS1501). I request that you attend these classes, since past experiences shows that students that attend the classes perform better in the examination than students that do not attend these classes. One of the benefits of these discussion classes are that lecturers do exercises which can assist you in the examination.

If you are unable to attend the classes, it is imperative that you follow the guidelines in the study guide when you prepare for the examination. **No special hints on the examination will be given.** The diagrams in the prescribed material are of crucial importance and you have to be able to analyse and interpret them. You therefore have to **understand** the diagrams.

The following sections will be dealt with in the group discussion classes:

### **Study unit 1 (ch 1)**

- (1) Scarcity, choice and opportunity cost
- (2) The production possibility curve and figure 1-1
- (3) Economics as a social science
- (4) The distinction between microeconomics and macroeconomics, and positive and normative economics
- (5) The difference between levels of change and rates of change

### **Study unit 2 (ch 2)**

- (1) The three central economic questions:  
What should be produced? (figs 2-1 to 2-4)  
How should it be produced?  
For whom should it be produced?
- (2) The difference between the primary sector, the secondary sector and the tertiary sector (box 2-2)
- (3) The solutions to the central questions: traditional, command and market systems and the mixed economy

### **Study unit 3 (ch 3)**

- (1) The three major flows in the economy (production, income and spending) and figure 3-1
- (2) The difference between a stock and a flow, and box 3-1
- (3) The interdependence between households and firms
- (4) The circular flow of goods and services, and figure 3-2
- (5) The circular flow of income and spending, and figure 3-3

### **Study unit 4 (ch 7)**

- (1) Demand
  - The difference between demand and quantity demanded
  - Movements along the demand curve and figure 7-4
  - A shift of the demand curve and figure 7-7
  - Determinants/factors and the effect on the market demand curve, and table 7-3

- (2) Supply
  - The difference between supply and quantity supplied
  - Movements along the supply curve and figure 7-9
  - A shift of the supply curve and figure 7-10
  - Determinants/factors and the effect on the market supply curve, and table 7-5
- (3) Market equilibrium, excess demand and excess supply and also figure 7-11
- (4) The functions of prices in a market economy

**KNOW** THE DIFFERENT DEMAND FACTORS AND THE EFFECT ON THE MARKET DEMAND CURVE IF THE FACTOR/FACTORS CHANGES/CHANGE – TABLE 7-3.

**KNOW** THE DIFFERENT SUPPLY FACTORS AND THE EFFECT ON THE MARKET SUPPLY CURVE IF THE FACTOR/FACTORS CHANGES/CHANGE – TABLE 7-5.

**EQUILIBRIUM** IN THE **MARKET** IS WHERE THE **QUANTITY DEMANDED = QUANTITY SUPPLIED** AND NOT WHERE DEMAND = SUPPLY.

**Study unit 5 (ch 8)**

- (1) Changes in demand and figures 8-1 and 8-2
- (2) Changes in supply and figures 8-3 and 8-4
- (3) Simultaneous changes in demand and supply, figure 8-5 and table 8-1
- (4) The interaction between related markets (substitutes and complements)
- (5) Government intervention:
  - maximum prices and figure 8-9
  - agricultural prices and figure 8-11
  - minimum prices and figure 8-12

**Study unit 6 (ch 9)**

- (1) Definition of elasticity.
- (2) The calculation of the price elasticity of demand by means of a formula with given prices and quantities.
- (3) **Three** types of elasticity
  - (i) The price elasticity of demand:
    - Definition
    - The relationship between price elasticity of demand and total revenue from the sale of a product, figure 9-3, table 9-2 and box 9-2
    - Five different categories and figures 9-1(b) and 9-4
    - Determinants/factors
  - (ii) Income elasticity of demand
  - (iii) Cross elasticity of demand

**Study unit 7 (ch 10)**

- (1) The indifference approach
- (2) Indifference curves
- (3) Budget lines and box 10-4
- (4) Consumer equilibrium in the indifference approach

**THE CONSUMER IS IN EQUILIBRIUM IF THE FOLLOWING TWO CONDITIONS ARE MET:**

- (1) The combination of goods purchased has to be affordable and all the income must be spent.
- (2) The weighted marginal utilities of the different goods must be equal.

- (5) Changes in consumer equilibrium:
  - (i) a change in income
  - (ii) a change in price
- (6) Derivation of an individual demand curve for a product

**Study unit 8 (ch 11)**

- (1) Types of firm and the goal of the firm
- (2) The short run and the long run
- (3) Various revenue, cost and profit concepts
- (4) Production: fixed and variable inputs  
the short-run production function  
the law of diminishing returns  
total, average and marginal product of labour and figures 11-2 and 11-3
- (5) Costs in the short run, the relationship between the various cost concepts and figures 11-5 and 11-6
- (6) The relationship between production and cost in the short run, and figure 11-7

**Study unit 9 (ch 12)**

- (1) Perfect competition and requirements/assumptions
- (2) The demand curve for the product of the firm and figure 12-1
- (3) Equilibrium of the firm under perfect competition:  
the shut-down (or close-down) rule *and*  
the profit-maximising rule where  $MR = MC$

**EQUILIBRIUM OF THE FIRM UNDER PERFECT COMPETITION IS WHERE  $MR = MC$ , PROVIDED THAT  $P (= AR)$  IS AT LEAST EQUAL TO SHORT-RUN AVC. THUS  $MR = P = MC$ .**

- (4) The equilibrium position of the firm under perfect competition in terms of marginal revenue and marginal cost, figure 12-5 and box 12-3
- (5) Different short-run equilibrium positions (fig 12-6: economic and normal profit, economic loss)
- (6) The supply curve of the firm and the market supply curve, and figure 12-7
- (7) Long-run equilibrium of the firm and the industry (**to be studied in the study guide only**)

**EQUILIBRIUM OF THE FIRM UNDER PERFECT COMPETITION IN THE LONG RUN IS WHEN ALL THE FIRMS ARE MAKING NORMAL PROFITS – IN OTHER WORDS, WHERE  $MR (= P) = MC = AC$ .**

**Study unit 10 (to be studied in the study guide only)**

- (1) Different market structures:

perfect competition, monopoly, monopolistic competition and an oligopoly (table 10-1 in the study guide is important)

- (2) Figures 10-1, 10-2 and 10-3 are extremely important for the examination.

### **Study unit 11 (ch 14)**

- (1) The labour market versus the goods market  
 (2) The remuneration of labour and box 14-1  
 (3) The perfectly competitive labour market:  
 requirements for perfect competition  
 equilibrium in the labour market and figure 14-1

**EQUILIBRIUM IN THE LABOUR MARKET UNDER PERFECT COMPETITION IS WHERE THE QUANTITY OF LABOURERS DEMANDED = THE QUANTITY OF LABOURERS SUPPLIED.**

the market supply of labour and figure 14-3  
 the equilibrium position of a firm

**THE EQUILIBRIUM OF A FIRM THAT OPERATES IN A PERFECTLY COMPETITIVE LABOUR MARKET IS WHERE  $MRP (= MPP \times P) = W$ .**

an individual firm's demand for labour, figures 14-4 and 14-5, table 14-1, the market demand for labour

- (4) Imperfect labour markets  
 the reasons for imperfect labour markets  
 trade unions, the ways in which a trade union can attempt to increase the wage rate and figure 14-8, government intervention in the labour market: a minimum wage in a perfectly competitive labour market and figure 14-10

## **7 READING AND WRITING CENTRES**

As part of its commitment to learner support, Unisa has established a number of centres to help students to develop their academic reading and writing competence. At each centre, different services are available. Note that this is a *free service* to all Unisa students.

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- assist you with the use of sources
- suggest how you can edit and proofread your work

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- The Reading Excellence computer program will help you to assess your reading competence and develop your academic reading skills.

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#### **7.4 What you can do to help us help you?**

Bring along your

- assignments and other learning materials
- marked assignments, because these will enable us to see what you can do
- any other relevant study material

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Please contact the regional office (see the booklet *Your service guide @ Unisa*) that is closest to you, or use the following numbers or email address:

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Please contact any of the first-year lecturers if you experience problems with this module. We will gladly assist you.

We wish you every success in your studies. You will reap the fruits of your hard work.

**TC van der Vyver**  
**Course leader: ECS1501**