JUNE/JULY 2020 EXAMINATION SEMESTER I

PROGRAMME NAME: BBA/BAF/BEC/BPR/BPS/BCS

COURSE NAME: BoBA1010-Introduction to Microeconomics

***TIME ALLOWED*: 24 hours**
TIME :10:00hrs to 10:00hrs
***DATE*: 22nd June, 2020 to 23rd June 2020**

INSTRUCTIONS TO CANDIDATE:

1. This paper has **three (3) sections** (sections A, B and C) with a total of **SIX** questions**.**
2. Each section has **TWO** questions, and you are required to attempt **ONE** question from **EACH** section.
3. Number each answer clearly in the left margin;
4. Start each answer on a new page;
5. **Total marks: 60**

TYPE IN YOUR RESPONSES ON AN OFFICIAL ANSWER BOOKLET AND SUBMIT BY UPLOADING ON MOODLE BEFORE THE STATED TIME ELAPSES. NO SCANNED ANSWER SHEETS WILL BE ACCEPTED. PLEASE TYPE IN YOUR RESPONSES ON THE ANSWER BOOKLET PROVIDED

SECTION A –CASE STUDIES : ATTEMPT ONE QUESTIONS (TOTAL: 20 marks)

QUESTION 1

In the nineteenth century the American Federation of Labour, campaigning to reduce long working hours, adopted the slogan: ‘Eight hours for work, eight hours for rest, eight hours for what we will.’ Though blessed with a pleasing symmetry, there is nothing sacred about this division of the day, as France set out to demonstrate by introducing the 35-hour week in 1999.

At the time, it might have seemed possible to see this as another small step on the road to Utopia, an idealised world in which machines did all the work and humankind lived a life of leisure. But just five years later, with the 35-hour week under attack not just in France, where it is a legal limit, but in Germany, where it is the industrial norm, we appear to be regressing to the nineteenth-century vision of how the day should be divided.

This is not what John Maynard Keynes, the distinguished British economist, foresaw. In a 1930 essay called *Economic Possibilities for our Grandchildren*, Keynes extrapolated economic growth and concluded that humankind was well on the way to solving the ‘economic problem’, the struggle for subsistence, that had hitherto been its most pressing concern. He looked ahead to an age of leisure and abundance in which the pursuit of wealth came to be regarded as detestable; in which the highest respect would go to ‘the delightful people who are capable of taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin’.

Today, that age seems as far off as ever. The word ‘workaholic’ has been invented to describe people who never leave the office. Britons moan about their long hours culture and lack of work/life balance. Laptop computers and mobile phones have helped work extend itself into people’s private lives. And globalisation has thrown employees in developed countries into competition with those working longer hours for less money elsewhere.

In spite of it all, however, Keynes could still turn out to be right. Notwithstanding the reverses in France and Germany, study after study has shown that the long-term trend in working hours is still downwards. In the early 1800s, many people in the western world worked 70 hours a week. A century ago, the figure was more like 50. In Britain, government figures show that male, full-time employees worked an average of 39.1 hours a week in 2003 compared with 40.8 in 1995 – a fall of more than 1.5 hours a week in just eight years.

One reason why we think we are working harder, says the Chartered Institute of Personnel and Development, is because work is more stressful: people feel a need to succeed rather than merely earn a living. And with people now trying to cram so much into their lives it is little wonder some of them feel permanently exhausted. Whatever our perceptions to the contrary, it seems we are still working our way towards Utopia. It may simply be taking a little longer than we thought.

Questions

1. With the use of a diagram explain how the introduction of a 35-hour week might affect the production possibility frontier. (10 marks).

2. What is meant by the term the ‘economic problem’ mentioned in the Case Study? (10 marks).

QUESTION 2

The term ‘communist bloc’ was used in the West until the late 1980s to describe the operation of 25 economies under the Soviet sphere of influence. A characteristic of all these economies was an extensive central planning system, often termed a ‘command economy’. The command economy dominated every aspect of life, telling factories where to buy their inputs, how much to pay their workers, how much to produce and where to sell their output. Individuals were trained in specialist schools and universities and directed to work at specific factories, which provided their wages, houses, health care – even holidays in enterprise-owned hotels. The national bank was told how much to lend to which factories and how much cash to print to pay wages.

As a theoretical concept, central planning was very elegant. Using ‘input-output’ analysis (a planning framework which calculated the inputs required for each factory in order for it to deliver its planned outputs to the next stage in the production process), the planning ministry could calculate precisely how much labour, capital and raw materials each enterprise required to achieve its production targets. The various production targets for raw materials and intermediate and final products all fitted together to ensure a perfectly balanced expansion of the economy. Input and output prices were carefully set to ensure that all firms could pay their wage bills and repay loans from the national bank, while at the same time pricing consumer goods to encourage consumption of socially desirable goods (e.g. books, ballet, theatre, public transport, etc.) and discourage consumption of politically unfavoured goods (e.g. international telephone calls, cars, luxury goods).

Questions

i). Why do you think the command economy failed to deliver many of the benefits claimed for it in this study? (10 marks).

ii). Can you find any clues in the case above to explain why the transition from a command economy to a market economy has proved to be so painful for many of these states? (5 marks).

iii). What would you consider to be the potential advantages and disadvantages for these states seeking to move from a command to a market economy? (5 marks).

SECTION B – SCENARIO BASED – ATTEMPT ONE QUESTION (TOTAL: 20 marks)

QUESTION 3

Mr. Chilizani Phiri operates a roofing company in Matero and has been asked by the local government authority of Lusaka to repair the roofs of several of their properties damaged in a recent storm. The job must be completed during the next four weeks (twenty working days), and

Lusaka City Council has offered K16,000 for the job. Mr. Phiri has estimated that the job requires seventy-five work days, but he can only use his regular three workers for the job because it is a very busy period for the industry as a whole. Fortunately, Mr Phiri's son, Ganizani, can take time off from his regular job (paying K80 per day) to help complete the work. Mr. Chilizani Phiri has estimated that, for his regular employees, the cost per work day is K150. This consists of a wage of K100 (which is only paid if the employee is working) and K50 in contributions to the government (which are paid annually regardless of how many days the employees work). Phiri Roofing has all the equipment necessary for the job and has some of the materials available in inventory. The materials cost K5,000 originally, but these costs have since increased by an average of 5 per cent. Additional materials costing K3,000 are also required.

Mr. Chilizani Phiri has costed the job as follows:

Revenue K16,000

Costs

Labour K9,000

Materials K8,000

Total costs K17,000

Profit (K1,000)

On the basis of the above analysis Mr. Phiri rejects the job.

Questions

i). Prepare a revised cost estimate for the job, taking into account opportunity costs, replacement costs and incremental costs. Assume that Mr. Chilizani Phiri considers the job from the viewpoint of a family business, including himself and his son together. (4marks)

ii). Advise Mr. Phiri regarding whether he should accept the job, stating any assumptions involved in your analysis. (16 marks)

QUESTION 4

The global oil prices have sharply dropped due to the COVID – 19 pandemic and its effects (April, 2020, BBC Business News). In Zambia, however, oil prices remain unchanged despite global prices dropping
.
i). Why is this the case in Zambia? (10 Marks)
ii). Explain the role of price mechanism in solving the basic economic problems in a free market economy. (10 Marks)

SECTION C– PROBLEM SOLVING- ATTEMPT ONE QUESTION (TOTAL: 20 marks)

QUESTION 5

Firms in oligopoly market structure, usually form cartels. A cartel is an agreement on the Quantity to be produced (known as Quota) and the price to be charged. The aim of a cartel is to create a shortage of goods and services with a view of charging a higher price.

Clearly demonstrate this scenario into a practical example in Zambia and show if Cartels are allowed in Zambia. (20 marks).

QUESTION 6

Germany has given Zambia a K370 million rapid response package to mitigate the effects of COVID – 19 (Coronavirus), especially on the vulnerable. The support is focusing on expanding social protection measures through social cash transfers and supporting health systems in combating the pandemic by procuring medical supplies like protective equipment, essential medicines, and enhancing testing and laboratory capacity (Tuesday, May 12, 2020: Zambia Daily Mail.)

In April, 2020, Trade Kings made a contribution of K155, 000.00 to the fight against the spread of COVID – 19 (Coronavirus) in Zambia. What justification do you think the company management should give or will give to the owners of the business for taking such a commendable action? Is there any Economic benefit in taking such an action? (20 marks).
(Be constructive and Analytical in your justification)

End of the Examination