

**National University of Lesotho**  
**BA SUPPLEMENTARY EXAMINATIONS**  
**EC 2301: Fundamentals of Economic Analysis and Policy**

**August 2023**

**100 Marks**

**3 Hours**

---

**INSTRUCTION:**

- 1. Answer any Four Questions**

**Question One****(25 Marks)**

- (a) Explain why the wage-setting is upsloping and what the price setting curve represents. [5]
- (b) The COVID-19 pandemic and resulting government restrictions caused dramatic decreases in aggregate demand across the world. This in turn led to increased unemployment assuming that the labour market was in the labour market equilibrium before COVID-19. With the aid of a well-labelled diagram explain how automatic adjustment back to equilibrium could occur in the labour market when there is demand-deficit. [20]

**Quetsion Two****(25 Marks)**

Despite the presence of capitalist institution, the lagging performance of some developing economies in the sub-Saharan Afrian (SSA) region demonstrates that abundance of rich natural resources and existence of capitalist institutions are not enough to create a dynamic economy.

- (a) Mention and critically discuss three (3) reasons why capitalism has been less dynamic in the SSA region. [12.5]
- (b) Mention and discuss in detail three (3) political conditions that can contribute to the dynamism of the capitalist economic system in the SSA region. [12.5]

**Question Three****(25 Marks)**

The World Bank data library [www.worldbank.org](http://www.worldbank.org) reports the following information on the distribution of income for country A in 2019.

Population Quintile	Share of Income (%)
First (lowest)	4.73
Second	8.65
Third	13.08
Fourth	19.87
Fifth (highest)	53.67

- (a) Using these data plot the Lorenz curve. [10]
- (b) Using these data, calculate the Gini coefficient, G. (note: show your workings) [15]

**Question Four****(25 Marks)**

“When markets fail, intervention is justified”.

- (a) With the aid of a diagram, explain how the existence of a natural monopoly justifies government failure. [10]
- (b) Discuss the policy measures that can be effected to solve this type of market failure. [15]

**Question Five****(25 Marks)**

- (a) Describe the political market place. Who are the players? Who demands, who supplies, and what is the political equilibrium? **[8]**
- (b) How do rationally ignorant voters and budget maximizing bureaucrats prevent the political marketplace from delivering the efficient quantity of a public good? **[4]**
- (c) Under what conditions will competition among politicians for votes result in an efficient provision of a public good? **[3]**
- (d) Explain the concept of government failure and its determinants. **[10]**

**Question Six****(25 Marks)**

- (a) COVID-19 is highly contagious, and when one has it, family members, colleagues, and people who regularly interact with the person have a high risk of catching the disease. Suppose the disease can be prevented by taking an injection of vaccine in local hospitals by paying a significant amount of money. But some people fail to get the vaccine due to the high cost involved.
- i.* What kind of externality occurs for vaccines against COVID? Justify your answer. **[5]**
- ii.* Draw a suitable diagram to demonstrate the market equilibrium quantity of the vaccine and determine whether it is socially efficient? **[5]**
- (b) The table below sets out the marginal benefits that Thabo and Selloane receive from police officers on duty on the college campus:

Police officers on duty (number per night)	Marginal Benefit	
	Thabo	Selloane
	(dollars per police officer)	
1	18	22
2	14	18
3	10	14
4	6	10
5	2	6

- i.* If the police officers are provided by the city government, is the presence of the police on-campus a private good or a public good? Explain. **[5]**
- ii.* Suppose that Thabo and Selloane are the only students on campus at night. Draw a graph to show the marginal social benefits from on-campus police officers on duty at night. **[10]**

**Question Seven****(25 Marks)**

The table below presents information on population and gross domestic products of two small SADC countries for the years 1995, 2000, 2005, 2010, 2015, and 2020.

	Lesotho		Botswana	
	GDP (US\$ Billion)	Population	GDP (US\$ Billion)	Population
2000	1.45	1998630	8.49	1726985
2005	1.67	1977424	10.15	1892807
2010	1.99	2022747	11.35	2091664
2015	2.36	2118521	13.53	2305171
2020	2.19	2254100	14.80	2546402

Source: World Bank

- (a) Compute the average GDP growth rate for the periods in the table for each of the countries. **[10]**
- (b) Compute the average GDP per capita growth rate for the periods in the table for each of the countries. **[10]**
- (c) Discuss in detail and convincingly one (1) possible reason for the difference in economic performance of the two countries. **[3]**
- (d) It has been argued that GDP per capita is a good measure of wellbeing, mention two (2) reasons for this. **[2]**
-