

**NATIONAL UNIVERSITY OF LESOTHO**

**FACULTY OF AGRICULTURE**

**DEPARTMENT OF ECONOMICS AND EXTENSION**

**MICROECONOMICS FOR AGRICULTURE**

**AEC 313**

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**MARKS: 60**

**QUESTION 1**

- a. If the consumer's budget is M800.00, and he is faced with two consumer goods, beef and maize meal which cost M50.00/kg and M80.00/bag respectively; draw the budget constraint for this consumer. (4)
- b. What will happen to the budget constraint if the price of maize meal falls to M60.00? (3)
- c. If the prices of both commodities rise while the consumer's income remains unchanged, what will happen to the budget constraint? Explain using illustrations. (5)
- d. What are the properties of indifference curves? Explain each of the properties. (8)

**QUESTION 2**

- a. Using diagrams show the profit maximizing level for a firm in a monopoly market.(5)
- b. What are the sources of monopoly power in the market? (5)
- c. Explain how a price discriminating monopolist can maximize his profits. (5)
- d. How is monopolistic competition similar to monopoly? (3)
- e. How is monopolistic competition different from perfect competition (2)

### QUESTION 3

- a. Suppose a firm has this production function

Capital	Labour	Output	Total costs
10	1	43	120
10	2	160	140
10	3	351	160
10	4	600	180
10	5	875	200
10	6	1152	220
10	7	1372	240
10	8	1536	260
10	9	1656	280
10	10	1750	300
10	11	1815	320
10	12	1860	340

- Calculate the marginal costs for this firm (5)
- b. Find the average total costs for the firm (5)
- c. Plot the average product and marginal product curves (6)
- d. State the law of diminishing marginal returns and use the above example to explain it. (4)

