



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

<b>QUALIFICATION: BACHELOR OF ECONOMICS</b>	
<b>QUALIFICATION CODE: 07BECO</b>	<b>LEVEL: 7</b>
<b>COURSE CODE: PMI511S</b>	<b>COURSE NAME: PRINCIPLES OF MICROECONOMICS</b>
<b>SESSION: JULY 2019</b>	<b>PAPER: THEORY</b>
<b>DURATION: 2 HOURS</b>	<b>MARKS: 100</b>

<b>SECOND OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
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<b>INSTRUCTIONS</b>
<ol style="list-style-type: none"><li>1. Answer ALL the questions.</li><li>2. Write clearly and neatly.</li><li>3. Number the answers clearly.</li><li>4. This question paper is made up of five (5) sections.</li><li>5. Answer Section A and B on the attached answer sheet.</li><li>6. Answer ALL the questions and in blue or black ink.</li><li>7. Start each question on a new page in your answer booklet.</li></ol>

**THIS QUESTION PAPER CONSISTS OF 13 PAGES (Including this front page)**

**SECTION A**  
**20 Marks**

**Instruction:** Please use the answer sheet at the end of this Question paper. Cross the alternative you select with an X.

**1. Economics may be defined as the science that explains ...**

- (a) The choices that we make as we cope with scarcity
- b) The decisions made by politicians.
- (c) The decisions made by households.
- (d) All human behaviour.

**2. Scarcity is a situation in which ...**

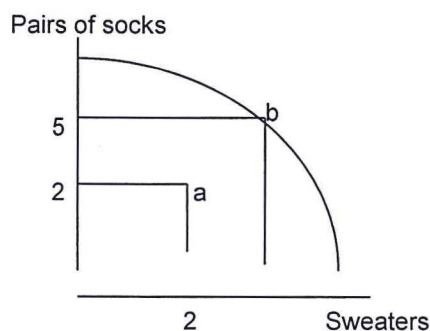
- (a) People are poor.
- (b) Wants exceed the resources available to satisfy them.
- (c) Something is being wasted.
- (d) There is a shortage of something.

**3. When resources are scarce, decision makers face tradeoffs. As a result**

- (a) In equilibrium, there will be "Excess Demand."
- (b) Wealthy individuals can choose to purchase any combination of goods and services that they wish.
- (c) Having more of one thing typically means getting by with less of something else.
- (d) Market based economies tend to perform less effectively than planned economies.

**4. The opportunity cost of moving from point *a* to point *b* in Figure 1 is ...**

Figure 1.



- (a) Zero
- (b)  $3/2$  pairs of socks per sweater
- (c) 3 pairs of socks

(d) 2 sweaters

**5. An economy that uses new technology ...**

(a) Experiences economic growth, but incurs an opportunity cost.

(b) Moves along its PPF and incurs an opportunity cost.

(c) Does not incur an opportunity cost.

(d) Does not need to accumulate capital, so economic growth is free.

**6. If the price of I-pods is below the equilibrium price, there will be a \_\_\_\_\_ of I-pods and the price will \_\_\_\_\_?**

(a) Surplus; fall

(b) Shortage; fall

(c) Shortage; rise

(d) Surplus; rise

**7. The quantity of cars that people plan to buy this month depends on all of the following except the \_\_\_\_\_.**

(a) Quantity of cars that dealers have for sale

(b) Price of a van

(c) Population

(d) Expected future price of a car

**8. Suppose that the price of flour used to produce bagels increases. Hence the equilibrium price of bagels \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_.**

(a) Rises; increases

(b) Rises; decreases

(c) Falls; increases

(d) Falls; decreases

**9. You observe that the price of coffee has increased and the quantity has also increased. You predict that the demand for coffee ...**

(a) Has increased with no change in the supply of coffee.

(b) Has increased but it is not as large as the increase in supply.

(c) Has not changed but that the supply of coffee has decreased.

(d) Has increased less than supply of coffee has decreased.

**10. In the simple circular flow model:**

(a) Households are suppliers of resources

(b) Businesses are suppliers of final products

- (c) Households are demanders of final products
- d) All of the above are true

**11. The relationship between quantity supplied and price is \_\_\_\_\_ and the relationship between quantity demanded and price is \_\_\_\_\_.**

- (a) Direct; inverse
- (b) Inverse; direct
- (c) Inverse; inverse
- (d) Direct; direct

**12. An increase in product price will cause:**

- (a) Quantity demanded to decrease
- (b) Quantity supplied to decrease
- (c) The supply curve to shift to the right
- (d) The demand curve to shift to the left

**13. 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.

**14. Which of the following is an example of a price floor?**

- (a) The minimum wage
- (b) Rent controls
- (c) Restricting petrol prices to N\$7 per litre when the equilibrium price is N\$9 per litre
- (d) All of these answers are price floors

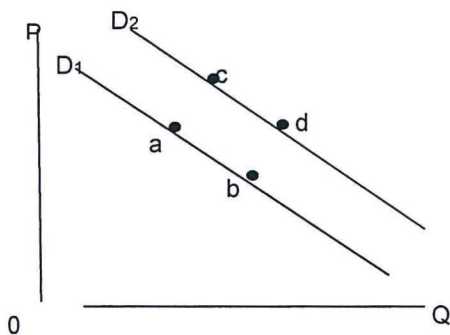
**15. A leftward shift of a product supply curve depends upon:**

- (a) An improvement in the relevant technique of production
- (b) A decline in the prices of needed inputs
- (c) An increase in consumer incomes



- (d) Some firms leaving an industry
16. Price ceilings are primarily targeted to help \_\_\_\_\_, while price floors generally benefit \_\_\_\_\_.
- (a) Consumers; producers  
 (b) Producers; consumers  
 (c) Producers; no one  
 (d) Increase tax revenue for governments; producers
17. A physician's knowledge and skills is referred to by economists as:
- (a) Intellectual raw materials  
 (b) Entrepreneurship  
 (c) Labour  
 (d) Human capital
18. Refer to figure 2. This graph represents two demand curves for Coke.

Figure 2.



Which of the following statements are correct?

- (i) A movement from **a** to **c** could be the result of an increase in the number of Coke consumers.
- (ii) A movement from **c** to **d** could be the result of an increase in the income of Coke consumers.
- (iii) A movement from **a** to **c** could be the result of a rise in the price of Coke.
- (iv) A movement from **a** to **b** could be the result of a fall in the price of Coke.
- (v) A movement from **c** to **a** could be the result of a change in tastes away from Coke.
- (a) (ii), (iii) and (v)  
 (b) (i), (iv) and (v)  
 (c) Only (ii) and (iii)  
 (d) None of the above

19. **If demand is perfectly inelastic, what is the price elasticity of demand?**
- (a) -1
  - (b) 1
  - (c) Zero
  - (d) Infinity
20. **If a product has an elastic demand, this means that ...**
- (a) Producers are relatively insensitive to a change in the price of the product.
  - (b) Producers are relatively sensitive to a change in the price of the product.
  - (c) Consumers are relatively insensitive to a change in the price of the product.
  - (d) Consumers are relatively sensitive to a change in the price of the product.

<b>SECTION B</b> <b>20 Marks</b>
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**Instructions:**

- **Answer all the questions state whether the statement is true or false.**
  - **All answers should be on the answer sheet provided on page 13. Tear the page off and place it inside your examination script.**
1. A micro-economist studies the behaviour of the individual parts of the economy. **[T/F]**
  2. Factors of production are also known as outputs. **[T/F]**
  3. Capitalism is a system in which economic decisions are made through the market **[T/F]**
  4. A market economic system is likely to generate an uneven distribution of output among the people of the country. **[T/F]**
  5. The economic reason for increasing opportunity costs is that economic resources are not equally efficient in all industries. **[T/F]**
  6. If the government imposes a price ceiling of N\$30 for movie tickets when the equilibrium price is N\$25 per ticket, then there will be a shortage of movie tickets. **[T/F]**
  7. A change in demand for a good is caused by a change in the price of the good. **[T/F]**
  8. If margarine is a good substitute for butter and the price of butter increases it will result in an increase in the demand for margarine. **[T/F]**

9. At equilibrium, all sellers can find buyers. **[T/F]**
10. A price cut will decrease the amount of money a firm receives if the demand for its product is relatively inelastic. **[T/F]**
11. If the supply of a product is perfectly inelastic, the supply curve will be vertical. **[T/F]**
12. Price elasticity of demand means the extent to which quantity demanded changes when there is a change in quantity supplied. **[T/F]**
13. Marginal utility is the additional or extra utility that a consumer derives from the consumption of one additional unit of a good. **[T/F]**
14. The amount that you pay less for the product than you are willing to pay is known as the consumer's surplus. **[T/F]**
15. On the downward (negatively sloped) part of the LAC curve, a firm is experiencing diseconomies of scale. **[T/F]**
16. A firm that makes zero economic profit is said to earn a normal profit and it represents the minimum profit necessary to keep a firm in operation. **T/F]**
17. A firm in a perfectly competitive market structure is a price taker. **[T/F]**
18. A firm in a perfectly competitive market structure faces a negatively sloped demand curve. **[T/F]**
19. A firm practicing price discrimination will charge a lower price to buyers with a elastic demand and a higher price to buyers with inelastic demand curves. **[T/F]**
20. A monopoly differs from a perfectly competitive firm in that the monopoly's demand curve and marginal revenue curve are downward sloping rather than horizontal. **[T/F]**

**SECTION C**  
**20 Marks**

**Instructions:**

- Answer all the questions in this section.
- Answer each question on a new, clean page.

**QUESTION 1 [10 marks]**

Table 1: Production Schedule

Capital	Labour	Total Product	Average Product	Marginal Product
5	0	0		
5	1		50	
5	2			190
5	3	570		
5	4			430
5	5		300	
5	6	1 800		
5	7			90
5	8		220	

- (a) Copy Table 1 onto your examination script and fill in the gaps (16 x 0.5 = 8)
- (b) At which level of labour will diminishing marginal returns set in? (1)
- (c) Is this company looking at the short or long run? Motivate your answer. (1)



**QUESTION 2 [10 marks]**

The table next page represent Ndeshi's marginal utilities and total utilities from the consumption of chicken and Lemon twist soda. The price per piece of chicken is N\$12 and a can of Lemon twist soda cost N\$6. Ndeshi has N\$60 to spend on these goods each week.

Table 2: Ndeshi's utilities

Units	Chicken			Lemon twist soda		
	TU	MU	MU/P	TU	MU	MU/P
0	0	-	-	0	-	-
1	136					13
2			10	138		
3		96			54	
4	424					8
5		40			36	

- (a) Copy Table 1 onto your examination script and fill in the gaps (16 x 0.5 = 8)  
(b) At which combination of the two goods will Ndeshi maximize her utility ( 2)

**SECTION D**  
**20 Marks**

**Instructions:**

- Answer all questions.
- Answer each question on a new, clean page.

**QUESTION 1 [20 marks]**

1.1 Concerning price elasticity of supply, draw graphs depicting

- (a) perfectly inelastic supply (2)
- (b) unit elastic supply, and (2)
- (c) Perfectly elastic supply (2)

1.2 Suppose you are the managing director of a firm that produces two goods: A and B. The price elasticity of demand for good A is 0.75 and for good B it is 2.5. The firm is experiencing serious cash flow problems and you have to increase total revenue as soon as possible. If you were to set the price for these two goods, what would be your pricing strategy for each product? Explain briefly. (4)

Table 3: Demand Schedule

Price (N\$)	Quantity demanded
8	30
10	26

1.3 Refer to Table 3:

- (a) Calculate the price elasticity of demand for a price increase from N\$8 to N\$10, use the point elasticity formula. (5)
- (b) Calculate the price elasticity of demand between the prices of N\$8 and N\$10, use the midpoint (arc) elasticity formula. (5)

**SECTION E**

**20 Marks**

**Instructions:**

- Answer all questions.
- Answer each question on a new page.

**QUESTION 1 [20 marks]**

Table 4: Revenue and Cost conditions of Family Furnishers (Pty) Ltd.

Output (Q)	P=MR	Total Revenue	Average Total Cost	Total Cost (N\$)	Marginal Cost	Total Profit/Loss
10	10.00		20.80			
20	10.00		12.40		4.00	
30	10.00		9.90		5.00	
40	10.00		9.00		6.20	
50	10.00		8.80		8.00	
60	10.00		9.00		10.00	

1. Copy table 4 in your answer book and complete the table. (16)
  - (a) In what market structure does this firm operate? Explain your answer (2)
  - (b) What level of output maximises the firm's total profit? Explain. (2)

**TOTAL MARKS FOR PAPER: 100**





Student number: .....

Name of lecturer:.....

**ANSWER SHEET FOR SECTION A**

Mark the correct answer with an X.

<b>Question Number</b>	<b>a</b>	<b>B</b>	<b>c</b>	<b>d</b>
1				
2				
3				
4				
5				
6				
7				
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11				
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13				
14				
15				
16				
17				
18				
19				
20				

Student number:.....

Name of lecturer:.....

**ANSWER SHEET FOR SECTION B**

Mark the correct answer with an X.

	True	False
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
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