

**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION**

**DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE**

<b>COURSE NAME: PRINCIPLES OF MICROECONOMICS</b>	
<b>COURSE CODE: PMI511S</b>	<b>LEVEL: 5</b>
<b>DATE: JUNE 2025</b>	<b>SESSION: PAPER THEORY</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>FIRST OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER</b>	Ms. Lavinia Hofni
<b>MODERATOR:</b>	Mr. Eslon Ngeendepi

<b>INSTRUCTIONS</b>	
1. Answer ALL the questions.	
2. Write clearly and neatly.	
3. Answer <b>Section A and B</b> on attached zip grade answer sheet. <b>TEAR OFF AND PLACE IN ANSWER BOOKLET</b>	
4. Answer Section C, D and E your answer booklet. <b>Answer each question on a separate page.</b>	
<b>PERMISSIBLE MATERIALS</b>	
1.	Scientific calculator
2.	Pen and Pencil
3.	Ruler

**THIS QUESTION PAPER CONSISTS OF 14 PAGES** (Including this front page and zip grade answer sheet)

SECTION A

20 MARKS

**QUESTION 1 [20 Marks]**

**Instructions: Answer in the ZIPGRADE grade form provided at the end of this question paper. Tear off the answer sheet from this question paper and place it in your examination booklet.**

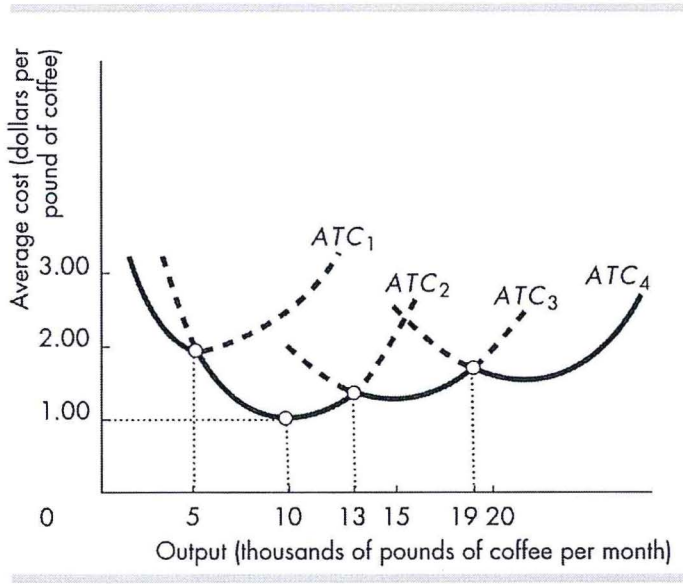
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1. To graph a relationship among several variables, we hold all but \_\_\_\_\_ variable(s) constant and use the \_\_\_\_\_ assumption. (1 Mark)
    - A) one; scarcity
    - B) two; *ceteris paribus*
    - C) three; marginal benefit
    - D) one; *ceteris paribus*
  
  2. When Ben Bernanke, Chairman of the Federal Reserve, addresses Congress regarding the United States role in the world economy, he is discussing (1 Mark)
    - A) a macroeconomic topic.
    - B) a microeconomic topic.
    - C) scarcity.
    - D) incentives.
  
  3. From 8 P.M. to 10 P.M, Susan can attend a movie, study, or talk with friends. Suppose that Susan decides to go to the movie but thinks that, if she hadn't, she would otherwise have talked with friends. The opportunity cost of attending the movie is (1 Mark)
    - A) talking with friends and studying.
    - B) studying.
    - C) talking with friends.
    - D) two hours of time.
  
  4. If instead of working on his own as a consultant making N\$25,000, Joe takes a job at a bank, the N\$25,000 is (1 Mark)
    - A) an opportunity cost.
    - B) a depreciation.
    - C) a loss.
    - D) an accounting profit.

5. Assume that the quantity consumed of pizza is dependent on three factors: the price of a pizza, the income of pizza purchasers, and consumers' taste for pizza. When graphing the relationship between the price of a pizza and the quantity of pizza consumed, (1 Mark)
- A) the price of a pizza and the income of pizza consumers are the only variables that are allowed to change.
  - B) the price of pizza and quantity consumed of pizza are the only variables that are allowed to change.
  - C) consumers' taste for pizza and the income of pizza purchasers are the only variables that are allowed to change.
  - D) None of the above answers are correct.
6. A price \_\_\_\_\_ is a regulated \_\_\_\_\_ that must be set below the equilibrium price to have an effect. (1 Mark)
- A) floor; price
  - B) floor; quantity
  - C) ceiling; price
  - D) ceiling; quantity
7. A price floor is a price (1 Mark)
- A) below which a seller cannot legally sell.
  - B) above which a seller cannot legally sell.
  - C) that creates a surplus of the good if it is set above the equilibrium price.
  - D) Both answers A and C are correct.
8. When economists speak of normal goods, they mean goods for which (1 Mark)
- A) the demand curve slopes downward.
  - B) marginal utility is positive.
  - C) marginal utility decreases as consumption increases.
  - D) demand decreases when incomes fall.
9. When Alex eats 1 slice of pizza, his total utility is 80; when Alex eats 2 slices of pizza, his total utility is 120. Alex's marginal utility from the second pizza is (1 Mark)
- A) 200.
  - B) 80.
  - C) 60.
  - D) 40.

Milkshakes		Sodas	
Quantity	Total utility	Quantity	Total utility
0	0	0	0
1	600	1	240
2	1000	2	360
3	1300	3	460
4	1540	4	520
5	1590	5	570
6	1636	6	590
7	1676	7	602
8	1708	8	610
9	1728	9	616
10	1738	10	620

10. The table above shows Tom's total utility from milkshakes and sodas. What is the marginal utility of Tom's eighth milkshake? (1 Mark)

- A) 32 units
- B) 20 units
- C) 16 units
- D) 10 units



11. In the above figure, economies of scale are present up to an output level of (1 Mark)

- A) 5,000 pounds of coffee.
- B) 10,000 pounds of coffee.
- C) 13,000 pounds of coffee.
- D) 15,000 pounds of coffee.

**12. If economic profit is equal to zero, then** (1 Mark)

- A) the entrepreneur's profit as measured by accountants is also equal to zero.
- B) the entrepreneur's profit as measured by accountants must be less than zero.
- C) the entrepreneur is earning only a normal profit.
- D) The entrepreneur's profit cannot be determined based on the information given.

**13. Points below a firm's total product curve are** (1 Mark)

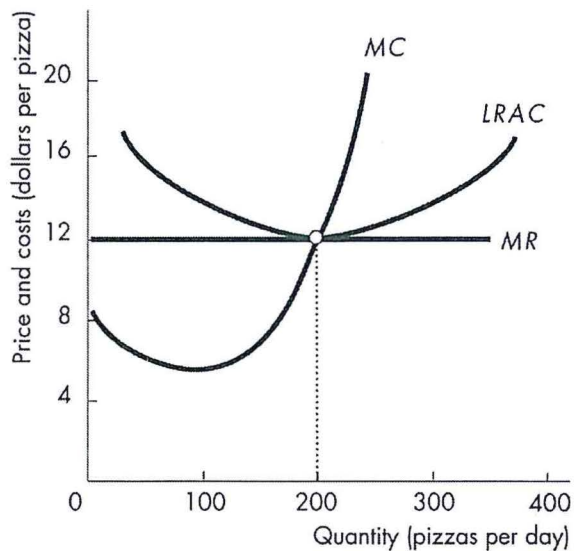
- A) both attainable and technologically efficient.
- B) neither attainable nor technologically efficient.
- C) attainable but not technologically efficient.
- D) technologically efficient but not attainable.

**14. A market structure in which many firms are selling an identical product is called** (1 Mark)

- A) perfect competition.
- B) monopolistic competition.
- C) oligopoly.
- D) monopoly.

**15. A market structure in which many firms compete by making similar but slightly different products is called** (1 Mark)

- A) perfect competition.
- B) monopolistic competition.
- C) oligopoly.
- D) monopoly.



16. The figure above shows the marginal revenue and long-run cost curves for a perfectly competitive firm. Which of the following statements is true? (1 Mark)
- A) The firm is producing at minimum long-run average cost.
  - B) Over time, this firm will leave this industry.
  - C) The firm is earning positive economic profit.
  - D) The firm will eventually decrease its production.
17. A good or service or a resource is nonexcludable if (1 Mark)
- A) it is possible to prevent someone from enjoying its benefits.
  - B) it is not possible to prevent someone from benefiting from it.
  - C) its use by one person decreases the quantity available for someone else.
  - D) its use by one person does not decrease the quantity available for someone else.
18. Education at a private university is NOT a public good because it is (1 Mark)
- A) nonrival.
  - B) excludable.
  - C) both nonrival and nonexcludable.
  - D) None of the above answers is correct.
19. The demand for a productive resource, not for its own sake, but for use in the production of goods and services is called a \_\_\_\_\_. (1 Mark)
- A) goods and services demand
  - B) production demand
  - C) derived demand
  - D) resource demand

**20. A firm in a competitive labor market will hire labor until the value of marginal product of labor equals the** (1 Mark)

- A) firm's marginal revenue.
- B) firm's marginal cost.
- C) firm's average cost.
- D) wage rate.

**SECTION B**

**20 MARKS**

**QUESTION 2 [20 Marks]**

**Instructions: Answer in the ZIPGRADE grade form provided at the end of this question paper. Tear off the answer sheet from this question paper and place it in your examination booklet.**

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21. Scarcity governs our lives. Because we cannot have everything, we are forced to make choices **(1 Mark)**
22. Because Government has revenue from taxes and loans it does not face opportunity cost **(1 Mark)**
23. A production possibilities curve illustrates graphically the maximum combinations of two goods that an economy can produce, given its available resources and technology. **(1 Mark)**
24. Producers are willing to supply a good only if they can at least cover their fixed costs of production in the long run **(1 Mark)**
25. When the price of the good changes and other influences on sellers' plans remain the same, the quantity supplied changes and there is a movement along the supply curve. **(1 Mark)**
26. When the price of a substitute for an energy bar rises or when the price of a complement of an energy bar falls, the demand for energy bars increases. **(1 Mark)**
27. Marginal utility diminishes as consumption of a good decreases. **(1 Mark)**
28. A consumer will maximize utility when all income is spent and the marginal utility is equal for all goods. **(1 Mark)**
29. If it costs N\$6.00 to go to the movies and N\$25.00 to go to a hockey game, Tom is maximizing his utility between movies and hockey if his marginal utility of movies is 12 units and his marginal utility from hockey is 25. **(1 Mark)**
30. Economies of scope has to do with lowering production costs by increasing the quantity of a product produced, whereas economies of scale has to do with lowering production costs by producing several products within the same firm. **(1 Mark)**
31. A firm's long-run average cost curve is derived by adding together its short-run average total cost curves. **(1 Mark)**

32. A firm's minimum efficient scale is the largest quantity of output at which long-run average cost reaches its highest level. **(1 Mark)**
33. Entry of new firms into a perfectly competitive market raises the product's price. **(1 Mark)**
34. Easy entry and exit ensure that perfectly competitive firms cannot make a long-run economic profit. **(1 Mark)**
35. A firm's shutdown point is the output and price at which the firm's total revenue just equals its total variable cost. **(1 Mark)**
36. Subsidizing education can lead an efficient level of production because education has external benefits. **(1 Mark)**
37. Non rival means that no one can be effectively excluded from using the good. **(1 Mark)**
38. When externalities occur, then society will want to produce at a point where social benefits is equal to social costs **(1 Mark)**
39. The demand for a good or service is called a derived demand because it is derived from the demand for the factors of production that produce this good or service. **(1 Mark)**
40. As the quantity of labour employed decreases, the value of marginal product diminishes. **(1 Mark)**

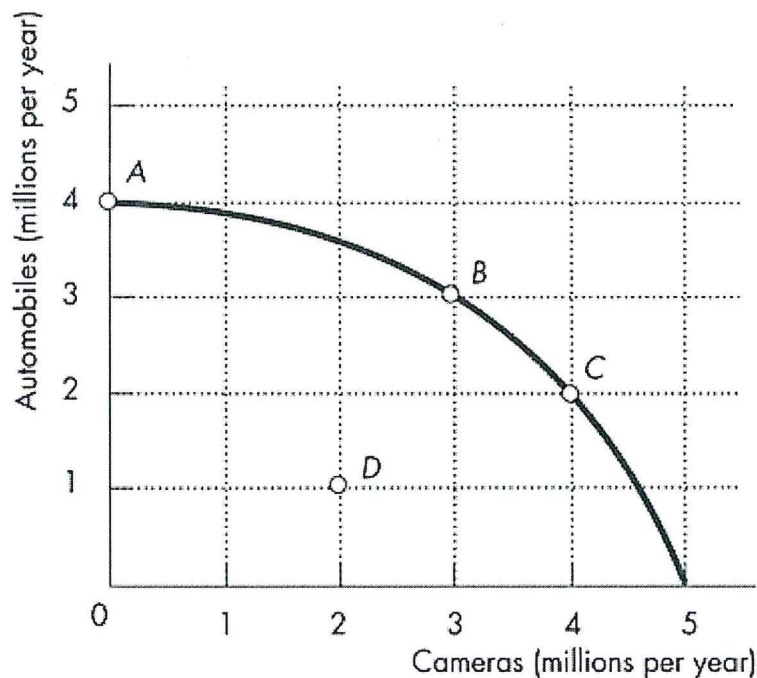
SECTION C

20 MARKS

**QUESTION 3 [10 Marks]**

3.1 Answer the questions below using Figure 1.

**Figure 1: Production possibilities frontier for a country**



- The nation is currently producing at point B and wants to move to point C. What is the opportunity cost of the move? **(1 mark)**
- The nation is currently producing at point B and wants to move to point A. What is the opportunity cost of the move? **(1 mark)**
- State any two (2) assumptions underlying the production possibility curve. **(2 marks)**
- From the figure, identify the efficient attainable production points. **(3 marks)**
- From the figure, identify the inefficient production points. **(1 mark)**
- Define the law of increasing opportunity cost. **(2 marks)**

**QUESTION 4 [10 Marks]**

4.1 In a diagram, illustrate the case of a price ceiling that affects the market's price and quantity. Clearly indicate whether there is a surplus or shortage on your diagram in the market.

**(10 Marks)**

**SECTION D**

**25 MARKS**

**QUESTION 5 [15 Marks]**

5.1 Sonya's budget for magazines and chocolate bars is N\$50. Her marginal utility from these goods is shown in table 1 below. If the price of a magazine is N\$5 and the price of a chocolate bar is N\$2.50, copy table 1 into your examination booklet and fill in the missing values. **(10 Marks)**

Table 1: Utility for magazines and chocolate bars

Magazines			Chocolate bars		
Quantity	Marginal utility	MU/P	Quantity	Marginal utility	MU/P
1	50		8	26	
2	42		10	23	
3	34		12	20	
4	26		14	17	
5	18		16	14	
6	10		18	11	
7	4		20	8	
8	2		22	5	
9	1		24	2	
10	-2		26	-1	

5.2 Which combinations maximize Sonya's utility? Show your workings and explain your answer. **(5 Marks)**

**QUESTION 6 [10 Marks]**

6.1 Suppose the local newspaper hires students to fold and bag newspapers for delivery and pays them N\$20 per shift. Five students can fold and bag 300 newspapers per shift. The fourth student added 50 newspapers to total output. The capital cost is fixed at N\$50 per shift.

- a) Is the newspaper operating in the long run or short run? Why? **(2 Marks)**
- b) What is the average product of 5 students? **(2 Marks)**
- c) Calculate the total variable and total costs of folding and bagging 300 newspapers. **(2 Mark)**
- d) Calculate the average variable and average total costs of folding and bagging 300 newspapers. **(3 Marks)**
- e) What is the marginal cost of one of the 50 newspapers folded and bagged by the fourth student? **(1 Mark)**



**QUESTION 8 [5 Marks]**

Table 2: Marginal product schedule

Quantity of labor (workers)	Marginal product (units per hour)	Value of marginal product (dollars)
1	10	
2	8	
3	6	
4	4	

8.1 Table 2 has the marginal product schedule for a firm. If the firm is a perfect competitor and the price of the product is constant at N\$2 a unit, complete the table. **(4 Marks)**

8.2 If the wage rate is N\$8 an hour, how many workers does the firm hire? **(1 Mark)**

**TOTAL 100 MARKS**

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