NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCAITON

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BRIDGING PROGRAMMES -SOCIAL SCIENCES (04NBPR)	
QUALIFICATION CODE: O7BEC0	**LEVEL: 4**
COURSE CODE: ITE411S	**COURSE NAME:** INTRODUCTION TO ECONOMICS
SESSION: JUNE 2024	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	**Ms Lavinia Hofni**

INSTRUCTIONS
1. Answer ALL the questions. 2. Write clearly and neatly. 3. Number the answers clearly. 4. The use of a scientific pocket calculator is allowed. 5. This examination paper is divided into FOUR sections. 6. Section A and Section B should be answered on the enclosed answer sheets. 7. Section C & D should be answered in your examination book.

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

SECTION A
20 Marks

Instructions:
- Answer all the questions
- All answers should be on the answer sheet on page 12. Tear the page off and place it inside your examination script.

QUESTION 1

1.1 Macroeconomics can best be described as the
(a) study of the large aggregates of the economy, or the economy as a whole.
(b) study of how supply and demand determine prices in individual markets.
(c) analysis of how firms try to maximise profits.
(d) study of how a consumer tries to spend his income.

1.2 In a command economy
(a) the government uses prices as a principal means of directing resources
(b) government does not usually allow private property
(c) markets are the main mechanism of matching wants and resources
(d) money does not exist.

1.3 Which of the following is not a resource as the term is used by economist?
(a) land
(b) money
(c) capital
(d) building

1.4 The production possibilities curve (PPC) shows combinations of goods that
(a) can be produced at full employment
(b) can be consumed for a given income
(c) are available for trade
(d) can be produced by a firm using different processes.

1.5 If Michelle consumes more and more chocolates and each additional chocolate provides less satisfaction than the previous one, we are seeing the working of the law of
(a) demand
(b) decreasing economies of scale
(c) diminishing marginal utility
(d) increasing opportunity coast.

1.6 Andre consumes only jeans and shirts. Suppose that he maximises total utility within his budget constraint and the price of jeans is N$250, where the last pair yielded 300 units of extra satisfaction. If the price of a shirt is N$90, then the extra satisfaction received from the last shirt must be
(a) 450 units
(b) 108 units
(c) 72 units
(d) impossible to calculate with the information provided.

1.7 Which one of the following statements is correct?

(a) A consumer is in equilibrium when his or her marginal utility is at the maximum level.
(b) A consumer aims to maximise profits.
(c) To determine consumer equilibrium only prices of products should be considered.
(d) A consumer is in equilibrium if the marginal utility per N$ is equal for the products that he or she buys, and his or her available income has been spent.

1.8 If quantity demanded for good "B" increases as the price of good "A" increases, one can deduce that A and B are:

(a) complementary goods.
(b) Normal good.
(c) Luxury good.
(d) Substitute good.

1.9 Suppose the supply of cotton increases in Namibia due an improved variety. As a result:

(a) Prices of cotton will decline, *ceteris paribus*.
(b) Quantity demanded for cotton will increase, *ceteris paribus*.
(c) The prices of the input used in the production of cotton will rise, *ceteris paribus*.
(d) All of the above.

1.10 A commodity will tend to have a price elastic demand if:

(a) It has many close substitutes.
(b) The market is defined more narrowly.
(c) It is a luxury good.
(d) The time horizon is long.

1.11 If the price elasticity of supply is zero, then

(a) the supply curve is horizontal
(b) a small decrease in the price will result in suppliers producing nothing
(c) if the price rises, suppliers will still produce the same amount
(d) there is a shortage of the good on the market.

1.12 In the long run

(a) All inputs are fixed
(b) All inputs are variable
(c) At least one input is variable and one is fixed
(d) Output is fixed at the maximum.

1.13 Which of the following topics are within the scope of macroeconomics?

(a) The effect of taxes on prices of airline tickets and employment trends in the food industry.
(b) The price of beef and wage differences between genders.
(c) How a consumer maximises utility and how prices are established in markets for agricultural goods.
(d) The percentage of the labour force that is out of work and the differences in average income from country to country.

Questions 1.14 and 1.15 are based on the information given in Table 1 which describes the process by which a loaf of bread is made available to a consumer as a final good.

Table 1

	Price (N$) of a loaf of bread
Farmer sells wheat to a miller	0.70
Miller sells flour to baker	1.05
Baker sells bread to grocer	1.90
Grocer sells bread to consumer	2.25

1.14 Given the information in Table 1, the total value of a loaf of bread is:

(a) N$2.25

(b) N$5.90

(c) N$0.35

(d) N$1.55

1.15 Given the information in Table 1, the value added by the grocer equals:

(a) N$0.35

(b) N$0.70

(c) N$1.05

(d) N$2.25

1.16 The cost of a bank borrowing from the Bank of Namibia is the:

a) reserve requirement

b) price of securities in the open market

c) repo rate

d) Yield on government bond

Table 2 shows a section of the national accounts for a small country in 2023. Select the relevant statistics and answer Questions 1.17 and 1.18 using the expenditure method.

Table 2

	N$ millions at market prices
Final Consumption expenditure by Government	3 000
Gross capital formation	2 200
Financial investment (stocks and bonds)	8 000
Exports of goods and services	1 200
Final consumption expenditure by households	10 500
Imports of goods and services	1 500
Taxes	9 500
Government transfers	1 500

1.17 Refer to Table 2 above: The value of gross domestic expenditure is:

(a) N$13 200
(b) N$15 900
(c) N$15 700
(d) N$23 700

1.18 Refer to Table 2 above: The value of gross domestic product is:

(a) N$23 400

(b) N$16 000

(c) N$15 200

(d) N$15 400

1.19 In a country with a population of 50 million people, there are 20 million children under the age of 15 years, 16 million employed, 9 million pensioners, 4 million unemployed and 1 million people who are physically unable to work. The unemployment rate in this country equals:

(a) 25%
(b) 20%
(c) 13.3%
(d) 10%

1.20 A business cycle is a period of time in which:

(a) a business is established and ceases operations
(b) there are four phases: peak, downswing, trough, upswing
(c) the price level changes
(d) expansion and contraction of economic activity are equal

SECTION B
20 Marks

Instructions:

- Answer all the questions
- All answers should be on the answer sheet on page 13. Tear the page out and place it inside your answer book.

QUESTION 1 **[20 marks]**

2.1 Goods are scarce because society's desire for them exceeds society's ability to produce them. [T/F]

2.2 A market system is likely to generate an uneven distribution of income among the people of a country. [T/F]

2.3 A change in the demand for a good is caused by a change in the price of the good. [T/F]

2.4 Sophie has N$10 available to spend on chocolate that costs N$5 a slab. Sophie wants ten slabs. She can therefore be said to have a demand for ten slabs of chocolate. [T/F]

2.5 Max has only enough money to purchase a television set or a digital camera. If he decides on the TV set, the opportunity cost of the TV set is the digital camera that he has to sacrifice.[T/F]

2.6 Wages are income paid for labour while salaries are income paid for capital. [T/F]

2.7 If two products, coffee and sugar, are complements, then an increase in the price of coffee will cause a decrease in the demand for sugar. [T/F]

2.8 Supply refers to the quantity of a good that is available in a shop on a particular day. [T/F]

2.9 Excess demand for a good will put downward pressure on the price of the good. [T/F]

2.10 A change in the price of apples will cause a movement along the supply curve for apples. [T/F]

2.11 The flour used in a bakery to bake bread and the flour used by Helena to bake bread for her family are both classified as final goods. [T/F]

2.12 The circular flow of economic activity is a model of the influence of the government on business behaviour. [T/F]

2.13 If GDP at factor cost = N$400 billion, indirect taxes = N$35 billion and subsidies = N$5 billion, then GDP at market prices = N$430 billion. [T/F]

2.14 Buying a cup of coffee with a ten dollar note represents the use of money as a unit of account. [T/F]

2.15 The M1 money supply includes checkable deposits, savings accounts, paper money and coins. [T/F]

2.16 A decrease of the Repo rate by the Bank of Namibia is a policy action designed to increase the money supply. [T/F]

2.17 The quantity of money held in response to interest rates is the speculative motive for holding money. [T/F]

2.18 Expansionary fiscal policy means to reduce aggregate demand during a recession. [T/F]

2.19 In economics, economic growth can best be described as a period of growth in the nominal GDP of a country. [T/F]

2.20 In times of economic upswing, unemployment should decrease and output should increase. [T/F]

SECTION C
30 Marks

QUESTION 1 **[8 marks]**

Use a production possibilities curves to illustrate each of the following (putting goods on the vertical axis and services on the horizontal axis):

(a) A shift in production from services towards goods. (2)

(b) An increase in the potential output of the economy due to a greater availability of factors of production. (2)

(c) An increase in productivity in the services sector. (2)

(d) A decrease in productivity in the goods sector. (2)

QUESTION 2 **[12 marks]**

2.1 Consider the market for chocolate chip cookies. Suppose there is an increase in the price of cake flour used in the production of chocolate chip cookies. **Demonstrate graphically** the effect this will have on the equilibrium price and quantity of chocolate chip cookies. (4)

2.2 Suppose you are the manager of a soccer stadium where all the tickets always have to be sold at the same price. A match between Brave Warriors and Bafana-Bafana is scheduled to be played next month. Market research indicates that you can sell 10 000 tickets @ N$50 each and 8 000 tickets @ N$100 each.

(a) Which price would you choose? Motivate your answer by calculating the total revenue. (3)

(b) Calculate the price elasticity of demand for this game using the figures given in 2.2 above. (5)

QUESTION 3 [10 marks]

Trevor is a Lego maniac, but also likes Super Soaker squirt guns. The following table shows Trevor's total utility, marginal utility and the weighted marginal utility from Legos and squirt guns measured in utils.

Table 3: Utility schedule

Quantity of Legos	TU	MU	MU/P	Quantity of Squirts Guns	TU	MU	MU/P
0	0	-	-	0	0	-	-
1		20	4	1		50	6.25
2	37		3.4	2	75		3.125
3		13	2.6	3		15	1.875
4	60		2	4	100		1.25
5		5	1	5		2	0.25

a) Copy Table 3 into your answer book and complete the missing columns. (10)

SECTION D
30 Marks

QUESTION 1 **[10 marks]**

In the early 1980s, under the President Ronald Reagan, the Federal government in the USA reduced personal income tax rates. The goal was to expand aggregate demand and boost real GDP output and employment in order to end the recession of 1980-1981. In the 1990s, an important part of President Bill Clinton's programs was to stimulate economic growth by boosting government spending on long-term investment, including highways, bridges and education. In 2001, the United States experienced a recession and during the next two years, President George W. Bush proposed and implemented tax cuts to stimulate the economy. And in 2008, Americans received a N$170 billion tax reduction stimulus package. This was followed by another N$787 billion federal stimulus package under the Obama administration in 2009. The intention was to jump-start the economy into recovery from the recession.

(a) Define the term fiscal policy. (2)

(b) What type of fiscal policy was adopted by President Ronald Reagan? (2)

(c) In 2008, Americans received a N$170 billion tax-reduction stimulus package, followed by another N$787 billion federal stimulus package under the Obama administration in 2009 intended to jump-start the economy into recovery from the recession. State what type of fiscal policy this was AND explain the effect of such policy on the households, firms and on aggregate demand. (5)

(d) What is the main argument that is used to justify government intervention in the economy? (1)

QUESTION 2 **[10 marks]**

Central banks worldwide have been criticized for reacting too slow to change interest rates in the wake of changing economic conditions. The reason for their slow reaction is uncertainty about the future state of inflation, economic growth and asset prices. Yet, their failure to react quickly often cost the economy dearly. In a hypothetical situation:

(a) If the inflation rate rises, what effect will the Bank of Namibia's decision to increase the Repo rate have on the money supply? (1)

(b) Suppose that the Namibian economy has been experiencing slow economic growth and you have been invited to attend the Monetary Police Committee meeting as an expert to advise on the policy measure they need to adopt in promoting economic growth. The Bank of Namibia is reluctant to use the Repo rate as means to promote economic growth and thus you are tasked with assisting on how they could use the Open Market Operations tool in achieving the set goal.

(i) State whether you're going to adopt an expansionary or restrictive monetary policy. (1)

(ii) Explain the effect of such policy on the:

1. Banks' reserves. (2)

2. Money supply. (2)

3. Prices of government securities. (2)

4. Interest rate. (2)

QUESTION 3 **[10 marks]**

What type of unemployment is linked to each of the following?

(a) New entrants into the labour market looking for their first job. (2)

(b) Unemployed workers who have insufficient skills to find a job. (2)

(c) Unemployment that results from a temporary decrease in aggregate demand. (2)

(d) The use of automated robots in a factory. (2)

(e) An individual who cannot find work because his/her skills have become obsolete. (2)

TOTAL FOR PAPER: 100 MARKS

Student number: ………………………………………………

ANSWER SHEET FOR SECTION A

Mark the correct answer with an X.

	a	b	c	d
1.1				
1.2				
1.3				
1.4				
1.5				
1.6				
1.7				
1.8				
1.9				
1.10				
1.11				
1.12				
1.13				
1.14				
1.15				
1.16				
1.17				
1.18				
1.19				
1.20				

Student number:..

ANSWER SHEET FOR SECTION B

Mark the correct answer with an X.

	True	False
2.1		
2.2		
2.3		
2.4		
2.5		
2.6		
2.7		
2.8		
2.9		
2.10		
2.11		
2.12		
2.13		
2.14		
2.15		
2.16		
2.17		
2.18		
2.19		
2.20		