



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT ACCOUNTING, ECONOMICS AND FINANCE

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| COURSE NAME: PRINCIPLES OF MICROECONOMICS | COURSE CODE: PMI511S |
| DATE: JUNE 2022 | SESSION: PAPER THEORY |
| DURATION: 3 HOURS | MARKS: 100 |

| SECOND OPPORTUNITY EXAMINATION QUESTION PAPER | |
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| MODERATOR: | Mr. Eslon Ngeendepi |

| INSTRUCTIONS |
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| <ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers clearly.4. Answer Section A and B on the attached answer sheet. <p>PERMISSIBLE MATERIALS</p> <ol style="list-style-type: none">1. Scientific calculator2. Pen and Pencil3. Ruler |

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

SECTION A
20 MARKS

Instructions:

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

QUESTION 1 [20 marks]

- 1.1** The PPC curve is bowed outwards because of
- A. Constant opportunity cost.
 - B. Decreasing opportunity cost.
 - C. Diminishing marginal cost.
 - D. Increasing opportunity cost.
- 1.2** The following factors can be responsible for economic decline
- A. Economic sanctions against a nation, which can place restrictions on international trade and foreign investment.
 - B. Deciding on what and how many goods to produce can lead to economic decline.
 - C. Growth of the labour force, which may result in natural population growth or immigration.
 - D. We may increase the quantity of capital goods such as machines, tools and equipment, which can insert pressure on the economy.
- 1.3** In a command system
- A. The government has limited protection for consumers.
 - B. The government plans and implements all economic activities.
 - C. The government has free completion.
 - D. The government has unequal distribution of income.
- 1.4** Goods and services in a two-sector economy are traded in the
- A. Factor market
 - B. Goods market
 - C. Financial market
 - D. Business market
- 1.5** The relationship between the foreign sector and domestic firms is indicated by
- A. Import of goods and services by the domestic firms from the foreign sector.
 - B. Provision of public goods by the foreign sector to the firm.
 - C. Provision of leakages such as exports by the domestic firms.
 - D. Provision of injections such as imports by the domestic firms.

1.6 The following need to be considered when drawing a supply curve

- A. There is a direct relation between price and quantity supplied.
- B. There is a negative relation between price and quantity supplied.
- C. There is a suspicious relation between price and quantity supplied.
- D. There is a undirected relation between price and quantity supplied.

1.7 The exogenous variables or shift factors of supply are as follows;

- A. Prices of related goods
- B. The number of buyers
- C. Taxes and subsidies
- D. The taste and preferences of the consumer

1.8 At the midpoint of a linear demand curve, the price elasticity of demand is:

- A. Equal to zero.
- B. Between zero and one.
- C. Equal to one.
- D. Greater than one.

1.9 Which of the following is the formula to calculate arc elasticity of demand?

- A. Arc elasticity of demand = $[(Q_2 - Q_1) / (Q_2/2)] / [(P_2 - P_1) / (P_2/2)]$.
- B. Arc elasticity of demand = $[(Q_2 + Q_1) / (Q_2/2)] / [(P_2 + P_1) / (P_2/2)]$.
- C. Arc elasticity of demand = $[(Q_2 - Q_1) / (Q_2 + Q_1)/2] / [(P_2 - P_1) / (P_2 + P_1)/2]$.
- D. Arc elasticity of demand = $[(Q_1 - Q_2) / (Q_2 + Q_1)] / [(P_1 - P_2) / (P_2 + P_1)]$.

1.10 A consumer's budget refers to the:

- A. Wealth, she has acquired over time.
- B. Prices of the goods she buys.
- C. Amount of money she can spend on various goods and services.
- D. Difference between the consumer's income and expenditure.

1.11 An optimizing consumer makes her purchase decisions based on:

- A. The total benefits at various levels of consumption.
- B. Benefits per dollar spent at the margin.
- C. The total benefits per dollar spent at various levels of consumption.
- D. The benefits from the first dollar spent on consumption.

- 1.12** Which of the following statements is true of the short run?
- A. Only some of a firm's input can be varied in the short run.
 - B. All firms earn zero economic profits in the short run.
 - C. All factors of production can be changed in the short run.
 - D. All the factors of production are fixed in the short run.
- 1.13** Specialization is the result of:
- A. Hiring experienced workers.
 - B. Paying higher wages to experienced workers.
 - C. Workers developing a certain skill set.
 - D. Increased demand for a firm's commodity.
- 1.14** What a firm must pay for its inputs is referred to as its:
- A. Production value.
 - B. Cost of production.
 - C. Opportunity cost.
 - D. Loss in production.
- 1.15** A perfectly competitive firm will maximise profits by
- A. Setting price so that marginal revenue equals marginal cost.
 - B. Setting a price so that total revenue is at a maximum.
 - C. Producing all the output it can at any particular price.
 - D. Setting the price so that price exceeds total cost by the greatest amount.
- 1.16** An individual firm in a perfectly competitive market faces a demand curve that
- A. Slopes downward to the right.
 - B. Slopes upward to the right.
 - C. Is the same as the market demand curve.
 - D. Appears flat (horizontal).
- 1.17** In a monopolised industry
- A. There must be barriers to entry if the monopoly is to persist.
 - B. Other firms have no incentive to enter.
 - C. Profits are inevitable.
 - D. There will be less incentive to lower costs than under perfect competition.
- 1.18** A pure monopoly may be based on
- A. A patent right or an exclusive government franchise.
 - B. Sole control over the supply of raw materials.
 - C. Economies of scale.
 - D. All of the above.

1.19 Price discrimination

- A. Is based on cost differences between firms.
- B. Means selling at a lower price than consumers are willing and able to pay.
- C. Requires that consumers and markets are interdependent.
- D. Occurs when a firm charges different consumer price.

1.20 Which of the following is not a characteristic of a pure monopoly?

- A. Barriers preventing the entry of other firms into the market.
- B. A demand curve that is highly sensitive to changes in price.
- C. Products for which there are not good substitutes.
- D. An industry consisting of one seller.

SECTION B
20 MARKS

Instructions:

- 1. Answer all the questions.**
- 2. All answers should be on the answer sheet provided on page 13. Tear the page off and place it inside your examination script.**

QUESTION 1 [20 marks]

- 1.1** Scarcity is the basic economic problem of every society, even in rich countries. [T/F]
- 1.2** Capital are inputs into the production process that we get from nature such as raw materials. [T/F]
- 1.3** A decrease in the quantity or productivity of resources will shift the PPC curve to the right. [T/F]
- 1.4** John Maynard Keynes is known as the father of economics who sees capitalism as an effective economic system. [T/F]
- 1.5** In a three-sector circular flow model, the households pay taxes to the government. [T/F]
- 1.6** Price is the only factor that does not shift demand. [T/F]
- 1.7** The law of demand states that, there is an inverse relationship between price of a good and quantity demanded for those goods, other things being constant. [T/F]
- 1.8** A production function shows the relationship between output and the total cost of production. [T/F]
- 1.9** The ordinal utility approach ranks goods in order of preference. [T/F]
- 1.10** Consumer surplus refers to the difference between the market price and the maximum price the consumer would be willing to pay to get a given number of units of a product. [T/F]
- 1.11** A good with a perfectly inelastic supply has a price elasticity of supply equal to one. [T/F]
- 1.12** Marginal product is the change in the total output of a firm associated with using one more unit of an input. [T/F]
- 1.13** Fixed inputs are resources used at a constant rate in the production of a commodity. [T/F]
- 1.14** Economic profit is the difference between total revenue and total costs. [T/F]

- 1.15** A firm in a perfectly competitive market structure is a price taker. [T/F]
- 1.16** A firm in a perfectly competitive market structure faces a negatively sloped demand curve. [T/F]
- 1.17** A firm practicing price discrimination will charge a lower price to buyers with a more elastic demand and a higher price to buyers with less elastic demand. [T/F]
- 1.18** If all firms in a perfectly competitive market earn economic profits, new firms will be attracted to the market. The supply of the good will increase, thus lowering its price. Eventually all firms will be earning normal profit only. [T/F]
- 1.19** The shut down rule states that a firm should only produce if the price is equal to or lesser than the AVC. [T/F]
- 1.20** A monopolist supplies the entire market and does not have a supply curve. [T/F]

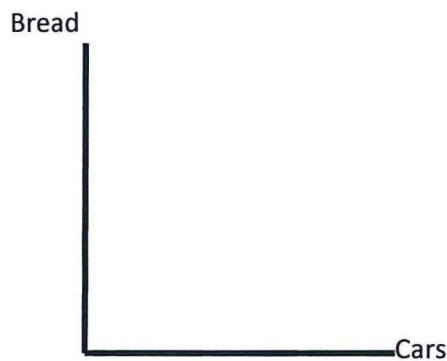
SECTION C
20 MARKS

QUESTION 1 [10 marks]

- 1.1** Using your knowledge of the law of demand, illustrate a movement along the demand curve (5 marks)
- 1.2** Identify any three (3) demand shifters. (3 marks)
- 1.3** Price floors create surpluses on the market, but because the market mechanisms is not allowed to function, the government has to intervene to clear the market. Mention any two options the government can use to intervene. (2 marks)

QUESTION 2 [10 marks]

- 2.1** Copy and complete the graph below in your examination script. With the aid of a diagram what shift would occur in a production possibilities curve when workers lose their jobs due to a recession (2 marks)



- 2.2** A famous classification of our needs was put forward by Abraham Maslow known as the 'Maslow's hierarchy of needs. Identify 3 classifications from Maslow's hierarchy. (3 marks)
- 2.3** Define the following terms
- a) Scarcity (1 mark)
- b) Command economy (2 marks)
- c) Law of demand (2 marks)

SECTION D
20 MARKS

QUESTION 1 [8 marks]

- 1.1** State the law of diminishing marginal utility. (2 marks)
- 1.2** Consider two goods: X and Y. Both goods have the same number of substitutes but consumers spend a higher proportion of their income on Good X than on Good Y. Given this information, which of the two goods will have a higher price-elasticity of demand? (2 marks)
- 1.3** Draw the supply curves for depicting the following categories of price elasticity of supply
- a) Relatively elastic supply (2 marks)
- b) Relatively inelastic supply (2 marks)

QUESTION 2 [12 marks]

Table 1: Total cost, Total fixed cost, Total variable cost, Average fixed cost and Marginal cost

| Quantity of output | Total fixed cost N\$ | Total variable cost N\$ | Total cost N\$ | Average fixed cost N\$ | Marginal cost N\$ |
|--------------------|-------------------------|----------------------------|-------------------|---------------------------|----------------------|
| 0 | | - | 70 | - | - |
| 3 | | | 108 | | |
| 4 | | | 120 | | |
| 9 | | | 170 | | |

- 2.1** Copy the table above into your examination script and fill in the blanks. (10 marks)
- 2.2** Define the term "economies of scale." (2 marks)

SECTION E
20 MARKS

QUESTION 1 [10 Marks]

1.1 Table 2: Revenue and Cost conditions of Step-Ahead (Pty) Ltd.

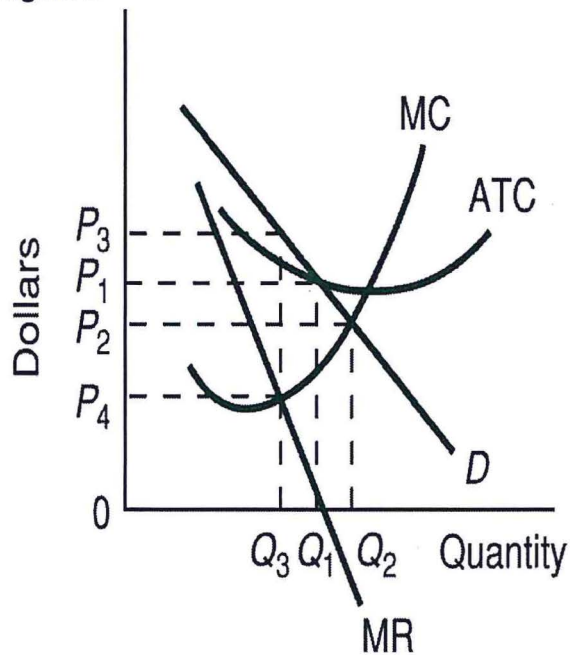
| Output (Q) | Total Revenue (TR) | Total Cost (N\$) | Total Profit (N\$) | Average Revenue | Average Total Cost | Marginal Revenue | Marginal Cost |
|------------|--------------------|------------------|--------------------|-----------------|--------------------|------------------|---------------|
| 0 | 0 | 50 | | | | | |
| 1 | 300 | 300 | | | | | |
| 2 | 575 | 525 | | | | | |
| 3 | 825 | 725 | | | | | |
| 4 | 1050 | 900 | | | | | |
| 5 | 1250 | 1050 | | | | | |
| 6 | 1425 | 1225 | | | | | |
| 7 | 1575 | 1425 | | | | | |
| 8 | 1700 | 1650 | | | | | |
| 9 | 1800 | 1900 | | | | | |
| 10 | 1875 | 2175 | | | | | |

a) Copy the above table into your examination script and fill in the blanks

(10 marks)

QUESTION 2 [10 Marks]

Figure 1



- 2.1 What quantity will this monopolist produce at equilibrium? (2 mark)
- 2.2 What is the condition for profit maximization (or loss minimization) for a monopolist? (2 marks)
- 2.3 List four (4) barriers to entry in a monopolist industry? (4 marks)
- 2.5 Is it possible for monopolist to implement price discrimination and how? (2 marks)

TOTAL MARKS FOR PAPER: 100

Student number

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ANSWER SHEET FOR SECTION A

Mark the correct answer with an X.

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| 1.1 | | | | |
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| 1.3 | | | | |
| 1.4 | | | | |
| 1.5 | | | | |
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| 1.20 | | | | |

Student number

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ANSWER SHEET FOR SECTION B

Mark the correct answer with an X.

| | True | False |
|------|------|-------|
| 1.1 | | |
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| 1.5 | | |
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