



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

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COURSE CODE: PMI511S	COURSE NAME: PRINCIPLES OF MICROECONOMICS
SESSION: JUNE 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	Mr. Eslon Ngeendepi

INSTRUCTIONS
1. This question paper is made up of Five (5) sections. 2. Answer Section A and B on the attached answer sheet 3. Write each question on a separate page in your answer booklet 4. Write neatly and legibly

THIS QUESTION PAPER CONSISTS OF 19 PAGES (Including this front page)

SECTION A

20 Marks

Instructions:

- Read all questions carefully.
- Answer all questions.
- All answers should be on the answer sheet provided on page.17. Tear the page off and place it inside your examination script.

QUESTION 1

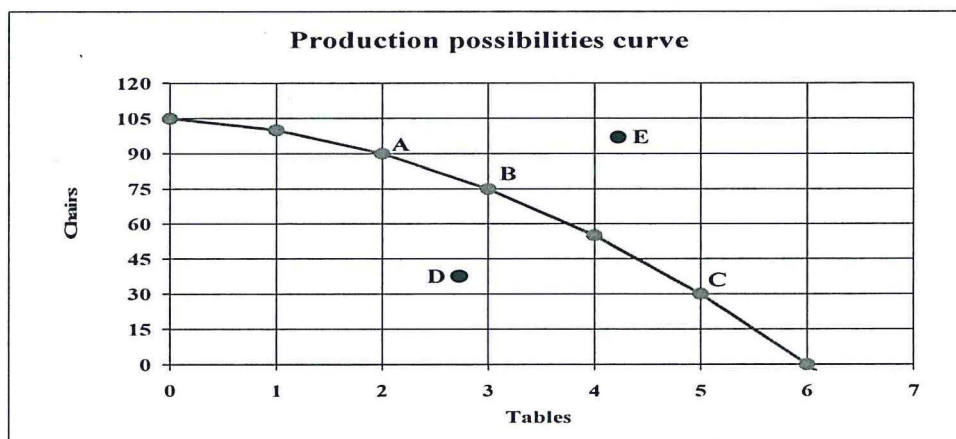
[20 Marks]

1.1 When resources are scarce, decision makers face trade-offs. As a result [1 mark]

- A. market based economies tend to perform less effectively than planned economies.
- B. In equilibrium there will be "excess demand"
- C. having more of one thing typically means getting by with less of something else.
- D. wealthy individuals can choose to purchase any combination of goods and services that they wish.

To answer questions 1.2, 1.3 and 1.4 refer to the diagram in Figure 1 showing a production possibilities curve (PPC) for tables and chairs.

Figure 1: Production possibilities curve (PPC) for tables and chairs



1.2 Refer to the diagram in Figure 1 above. At which point is it possible to produce more tables without giving up any chairs? [1 mark]

- A. Point A
- B. Point B
- C. Point C
- D. Point D

1.3 Refer to the diagram in Figure 1 above. The opportunity cost of raising table production from 2 to 3 units is: [1 mark]

- A. Zero
- B. 15 chairs
- C. 1 table
- D. 75 chairs

1.4 Refer to the diagram in Figure 1 above. Which of the following statements is true? [1 mark]

- A. All points along the PPC represent productive efficiency and full employment of the firm's resources.
- B. If the firm produces 105 chairs, the maximum number of tables it can produce is 6.
- C. To reach point E, the firm would have to reduce its inefficiency in production.
- D. To change its production choice from point B to point C, the firm would have to improve its technology in table production.

1.5 In the operation of the firm, capital is: [1 mark]

- A. financing provided by the owners.
- B. comprised of plant, equipment and inventories
- C. money borrowed from banks to run the firm.
- D. the outstanding obligations of the firm to others

1.6 If the quantity of a good, demanded increases by 15% when the price decreases by 1%, the demand for this good is [1 mark]

- A. Perfectly elastic
- B. Relatively elastic
- C. Unit elastic
- D. Relatively inelastic

1.7 If the price elasticity of demand is 0.63 and a firm increases the price of its product it would expect its total revenue to: [1 mark]

- A. decrease
- B. increase
- C. stay the same
- D. none of the above

1.8 Which of the following is an exogenous variable of demand? [1 mark]

- A. prices of related goods
- B. technology
- C. taxes and subsidies
- D. the price of factors of production and other input

1.9 If the price of coffee, a substitute for tea in consumption, increases, we would expect the equilibrium quantity of tea to: [1 mark]

- A. decrease
- B. increase
- C. stay the same
- D. increase or decrease (undetermined)

1.10 If a 10% increase in the market price of a product leads to a 10% decrease in the quantities demanded by all consumers in the market, then: [1 mark]

- A. the price elasticity of demand is greater than one
- B. the price elasticity of demand is less than one
- C. the price elasticity of demand is one
- D. there is insufficient information to determine the price elasticity of demand

1.11 In the long run, a firm can vary _____. [1 Mark]

- A. the capital it uses but not the quantity of labor it hires
- B. the quantity of labor it hires but not the capital it uses
- C. both the quantity of labor it hires and the capital it uses
- D. neither the quantity of labor it hires nor the capital it uses

1.12 If marginal product falls as an additional worker is employed, then we know that average product _____. [1 Mark]

- A. is less than marginal product.
- B. exceeds marginal product.
- C. falls if it is less than marginal product or rises if it exceeds marginal product.
- D. is less than marginal product and rising or more than marginal product and falling.

1.13 Ernie's Earmuffs produces 200 earmuffs a year at a total cost of \$2,000. Its fixed costs are \$400. Ernie's average variable cost of producing an earmuff is _____. [1 Mark]

- A. N\$12
- B. N\$20
- C. N\$8
- D. N\$4

1.14 The return that an entrepreneur can expect to earn, on average, is called. [1 Mark]

- A. profit.
- B. normal profit.
- C. economic profit.
- D. accounting profit.

1.15 The table below shows Elaine's utility from pizza and Pepsi. If Elaine consumes 2 slices of pizza and 3 Pepsis, her marginal utility from the fourth Pepsi is _____ units.

[1 Mark]

Table 1: Elaine's utility from pizza and Pepsi

Pizza		Pepsi	
Slices per week	Total utility	Quantity per week	Total utility
0	0	0	0
1	100	1	70
2	150	2	130
3	175	3	180
4	190	4	220
5	195	5	250

- A. 60
- B. 54
- C. 40
- D. 220

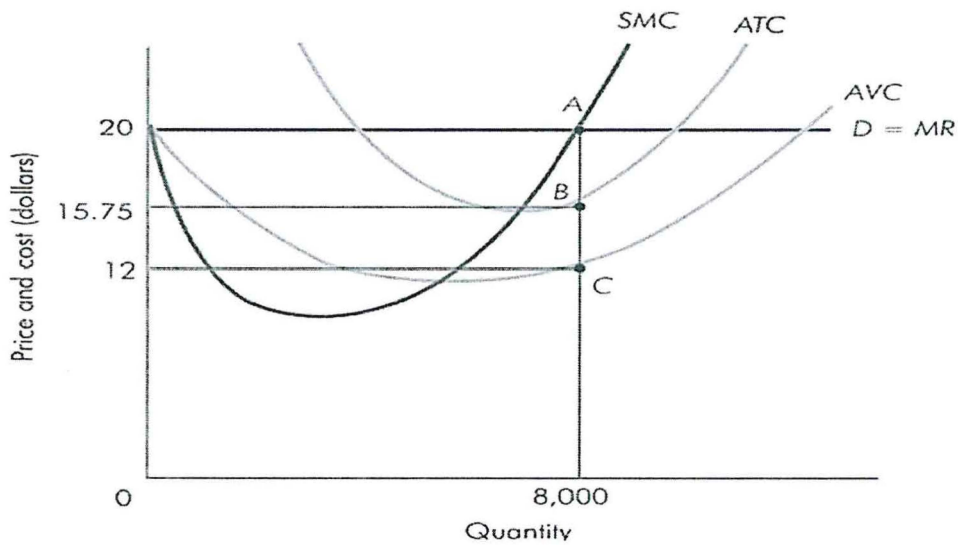
1.16 Price discrimination is possible

[1 mark]

- A. If firms keep their secrets.
- B. If buyers of the commodity can be prevented from reselling a monopolised commodity.
- C. only if firms conspire with competitors.
- D. All of the above.

To answer questions 1.17, 1.18, and 1.19 refer to the diagram in Figure 2 market structure below:

Figure 2: Market structure



1.17 Refer to the diagram in Figure 2 above. At which point is it possible for this firm to maximize its profit?

[1 mark]

- A. Point A
- B. Point B
- C. Point C
- D. Point D

1.18 Refer to the diagram in Figure 2 above. What is the total variable cost? [1 mark]

- A. 124 000
- B. 96 000
- C. 960.00
- D. 160 000

1.19 Refer to the diagram in Figure 2 above. Which of the following statements is true? [1 mark]

- A. This firm is making supernormal profit.
- B. This is a competitive market.
- C. This firm is making a loss profit.
- D. it's monopolistic.

1.20 The supply curve for a firm in perfect competition in the short run: [1 mark]

- A. depends on the industry's supply curve.
- B. depends on the industry's demand curve.
- C. is the rising part of the average total cost curve.
- D. is the marginal cost curve above the average variable cost curve.

SECTION B

20 Marks

Instructions:

- Read all questions carefully.
 - Answer all questions.
 - All answers should be on the answer sheet provided on page.18. Tear the page off and place it inside your examination script.
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QUESTION 1

[20 Marks]

- 1.1 A micro-economist studies the behaviour of the individual entities of the economy. [T/F]
- 1.2 Factors of production are also known as outputs. [T/F]
- 1.3 Capitalism is a system in which economic decisions are made through the market.[T/F]
- 1.4. A market economic system is likely to generate an uneven distribution of output among the people of the country. [T/F]
- 1.5. The economic reason for increasing opportunity costs is that economic resources are not equally efficient in all industries. [T/F]
- 1.6 If the price of a good increases from N\$ 3.00 to N\$3.50 and this results to quantities demanded decreasing from 1600 to 1400, the price elasticity of demand using point formula is 1.15. [T/F]
- 1.7 Perfectly elastic demand means that when the price changes by 1%, the quantities demanded decrease by a percentage less than one? [T/F]
- 1.8 A price floor is set to support producers of a particular industry. [T/F]

- 1.9 If the price elasticity of demand is 0.5 and the demand curve is linear, a company wanting to increase its total revenue should increase the price of the product. [T/F]
- 1.10 If the cost of producing a good increases and people's incomes increases at the same time, the equilibrium price will stay the same. [T/F]
- 1.11 If Pete enjoys his first pancake of the morning much more than his fifth pancake of the morning, he is exhibiting utility maximizing behavior. [T/F]
- 1.12 A consumer will maximize utility when all income is spent, and the marginal utility is equal for all goods. [T/F]
- 1.13 According to the principle of diminishing marginal utility, as an individual consumes more and more of a good or service, the total utility increases while the marginal utility decreases. [T/F]
- 1.14 All the production points that lie above the total product curve are inefficient. [T/F]
- 1.15 The marginal product of labor is defined as the increase in output attributable to the last worker hired divided by the total number of workers employed. [T/F]
- 1.16 A firm that makes zero economic profit is said to earn a normal profit and it represents the minimum profit necessary to keep the firm in operation. [T/F]
- 1.17 A firm in a perfectly competitive market structure is a price taker. [T/F]
- 1.18 A firm obtains a total revenue of N\$50 by selling 4 units and a total revenue of N\$60 by selling 5 units. The marginal revenue of the 5th unit is thus N\$20. [T/F]

- 1.19 A firm practicing price discrimination will charge a lower price to buyers with more elastic demand and a higher price to buyers with less elastic demand. [T/F]
- 1.20 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

QUESTION 1

[6 Marks]

1.1 Given the following market schedules for demand and supply of Hake fillet. Use the information in table 2 below to draw the demand and supply curves as well as labelling the market equilibrium price and equilibrium quantity for Hake. [6 marks]

Table 2: Quantities of Hake fillet and prices:

Quantity Demanded	Price (N\$/kg)	Quantity Supplied
1000	2	200
800	4	400
600	6	600
400	8	800
200	10	1000

QUESTION 2

[14 Marks]

2.1 With your knowledge in Economics, explain the following concepts:

- a) Opportunity cost [2 marks]
- b) Scarcity [2 marks]
- c) Production possibility curve [2 marks]

2.2 With examples distinguish between the term's "microeconomics" and "macroeconomics". [4 marks]

2.3 Mention 2 advantages and 2 disadvantages associated with the economic system used in Namibia. [4 marks]

SECTION D

20 Marks

QUESTION 1

[5 Marks]

1.1 Consider the following market information and answer the questions that follow. The price of butter in Botswana rises from 4 Pula to 5 Pula and the quantities demanded decrease from 40 to 20.

- a) Calculate the price elasticity of demand using point elasticity. [3 marks]
- b) What type of price elasticity do you find in your answer (a) above? [1 mark]
- c) What is the effect of this type of price elasticity on the total revenue of the butter supplier? [1 mark]

QUESTION 2

[5 Marks]

2.1 Which of the following news items involves a short-run decision and which involves a long-run decision?

- a) *June 31, 2023*: Edgars will open 75 more stores abroad than originally predicted, for a total of 975. [1 mark]
- b) *July 25, 2023*: For three hours on Tuesday, Edgars will shut down every single one of its 7,100 stores so that workers can receive a refresher training course. [1 mark]
- c) *August 2, 2023*: Edgars replaces some workers with talking assistant robots. [1 mark]
- d) *October 18, 2023*: Edgars merges with Woolworths. [1 mark]
- e) *November 18, 2023*: Edgars is closing 616 stores by the end of December. [1 mark]

QUESTION 3

[10 Marks]

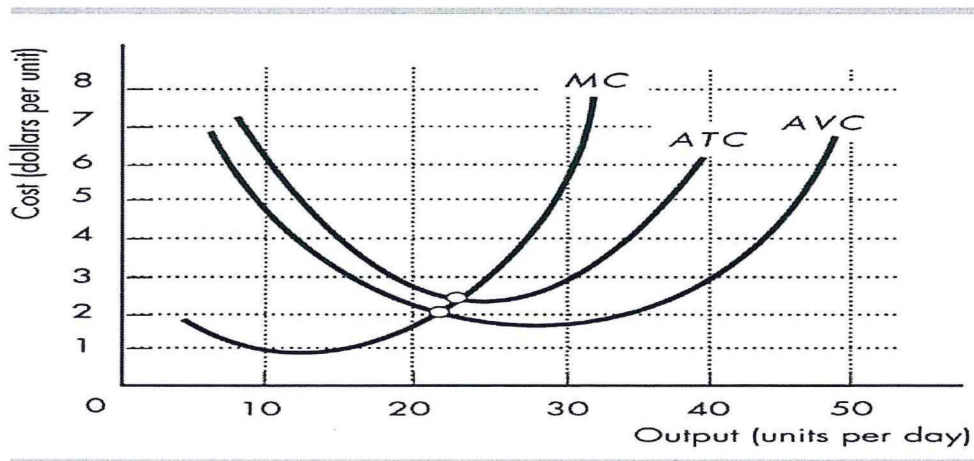
3.1 Ajax Manufacturing has a fixed scale of plant with the levels of total product given in the table for different levels of labour. Copy table 3 into your answer book and complete it by calculating the average product and marginal product. [5 marks]

Table 3: Ajax Manufacturing

Quantity of labor (workers)	Total product	Average product	Marginal product
0	0		
1	24	—	—
2	50	—	—
3	74	—	—
4	94	—	—
5	110	—	—

3.2 Are the curves in figure 3 below drawn correctly? Explain your answer [2 marks]

Figure 3: Cost curves



3.3 The table below shows Danielle's utility from ice cream and romance novels.

Table 4: Danielle's utility

Ice cream		Romance novels	
Quantity	Total utility	Quantity	Total utility
1	95	1	170
2	180	2	320
3	255	3	450
4	320	4	560
5	375	5	650
6	420	6	720

- a) What is Danielle's marginal utility from the 4th novel? [1 mark]
- b) Define the law of diminishing marginal utility. [1 mark]
- c) State whether the statement below is true or false. [1 mark]

"Utility is a personal opinion, and it is impossible to compare my opinion with yours. It is also not physically measurable because you cannot measure a person's pleasure or enjoyment."

SECTION E

20 Marks

QUESTION 1

[5 Marks]

1.1 List any two demand shifters that can lead to a change in demand for Namibian beef.

[2 marks]

1.2 Assume that the supply of Namibian beef is relatively inelastic. Draw a supply curve showing relatively inelastic supply. Clearly indicate on your graph the effects on price and quantity.

[3 marks]

QUESTION 2

[12 Marks]

2.1 Copy table 5 into your answer booklet and, compare and contrast perfect competition and monopoly using the Market descriptions.

[8 marks]

Table 5: Perfect competition Vs Monopoly

Market description	Perfect competition	Monopoly
(a) Number of firms		
(b) The product		
(c) Market entry		
(d) Control over the price		

2.2 Suppose that you enter Mr. Price a clothing store in Wernhill Park and see a sign above a T-shirt rack saying: "Buy one, get the second one at 50% off." What type (degree) of price discrimination does this example represent?

[2 marks]

2.3 Why does it make sense for some stores to discriminate based on price?

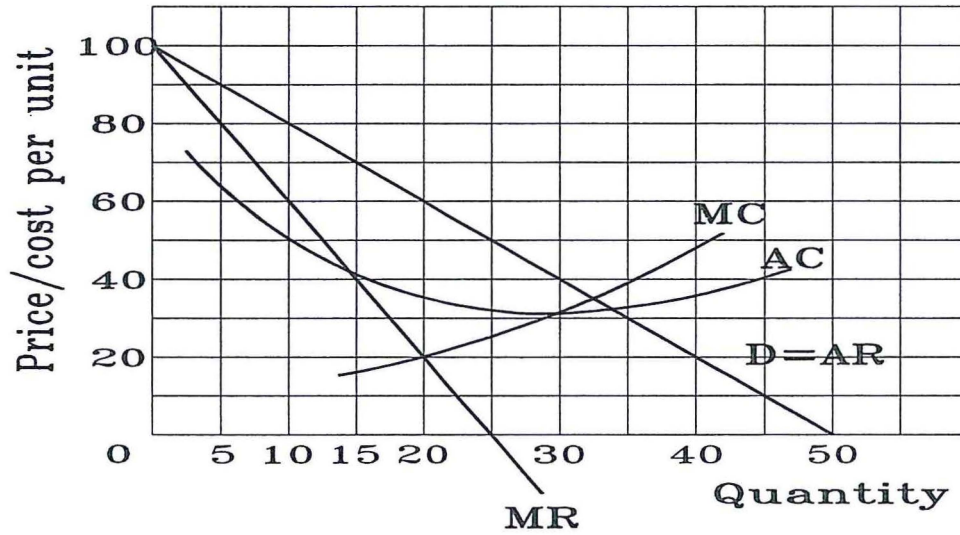
[2 marks]

QUESTION 3

[3 Marks]

3.1 Use the diagram below to answer questions (a) and (b).

Figure 4: Monopolist Demand curve



- a) What are the equilibrium output and price? [2 marks]
- b) What is the cost per unit (average cost)? [1 mark]

TOTAL MARKS: 100

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
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		

