



NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

13 Jackson Kaujeua Street
Private Bag 13388
Windhoek
NAMIBIA

T: +264 61 207 2081
F: +264 61 207 9081
E: coll@nust.na
W: www.nust.na

Centre for Open and Lifelong Learning

FEEDBACK TUTORIAL LETTER

1st SEMESTER 2020

ASSIGNMENT 1

PRINCIPLES OF MICROECONOMICS
PMI511S

COURSE: PRINCIPLES OF MICROECONOMICS
COURSE CODE: PMI511S
TUTORIAL LETTER: 01/2020
DATE: 03/ 2020

Dear Student

Thank you for submitting your first assignment on time. It was our pleasure to mark it. If your marks are good, I hope this will motivate you to work even harder. If you are disappointed with your marks, please do not give up now. Remember you still have one assignment to try and make up for this.

At the same time, we would like to remind you that by doing your assignment on your own, and not copying it from another will only be to your benefit in the coming exams.

Remember to read thoroughly through the questions before answering, especially the multiple-choice questions. Always try to answer as completely as possible, provide all the facts. Don't simply write down the answer, but show all your calculations. Avoid making unnecessary calculation mistakes and always write down the initial formula for any calculation.

Use this opportunity to revise the questions in Assignment 1 with the memorandum in hand. Give attention to the remarks of the marker-tutor in your assignment book. If there is anything that you are still unsure of, do not hesitate to contact a market-tutor.

We hope to see you at the vacation school and we are looking forward to your next assignment.

Regards,

Mr Mekukuye Mbaha
Tel. +264 810457092
Email: hmbaha@gmail.com

Principles of Microeconomics PMI511S 2020

ASSIGNMENT 1

SECTION A

Instruction: Please use the answer sheet at the end of this tutorial letter. Cross the alternative, you select with an X.

1. c
2. c
3. b
4. d
5. a

(5 marks)

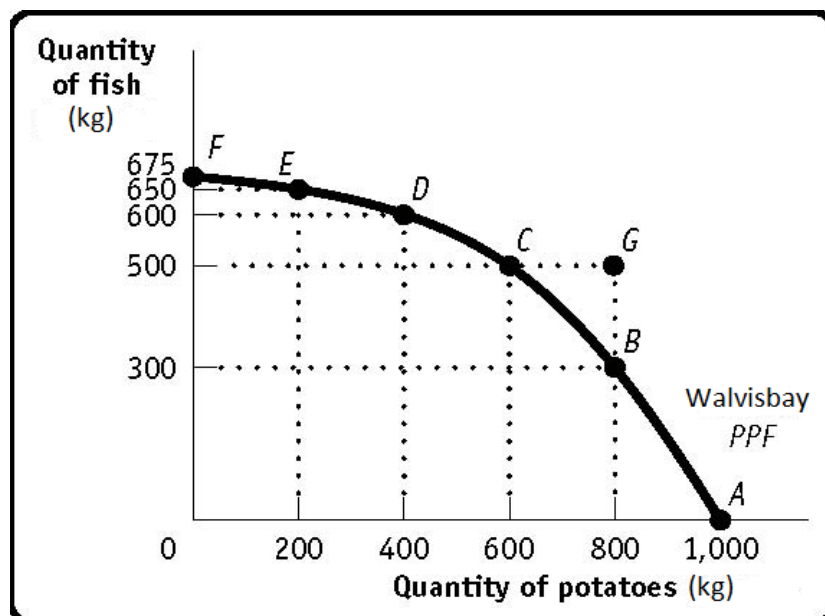
SECTION B

PLEASE START EACH QUESTION ON A NEW CLEAN PAGE.

QUESTION 1 [10 marks]

Using Table 1, please draw a production possibility curve.

- 1.1 Draw a production possibility frontier with wheat on the horizontal axis and fish on the vertical axis illustrating these options, showing points A- F. (3)



1.2 Can Rundu produce 500 kg's of Fish and 800 kg's of wheat? Explain, where would this point lie relative to the production possibility frontier? (2)

No, because the point will lie outside the production possibility frontier at point G and it's unattainable with the available resources.

1.3 What is the opportunity cost of increasing the annual output of wheat from 600 to 800 kg's? (2)

500 – 300 = 200 kg's of Fish will be given up.

1.4 Explain why the production possibility curve is bowed outwards? (2)

Because some resources are better suited for the production of Fish than they are for the production of wheat.

1.5 Suppose that there is an increase in the Namibian labour force, what will happen to the production possibility curve? (1)

The PPC will shift outward to the right

QUESTION 2 [16 marks]

2.1 Define what economic growth is.

- Economic growth means that there is an increase in quantity of goods and services that a country produces over time. (2)

2.2 State any three causes of economic growth and economic decline. (6)

Economic growth

- Technological change such as computerisation that may make all sectors more productive.
- Labour force growth due to natural population growth or immigration.
- Increase in the quantity of capital goods such as machines, tools and other equipment.

Economic Decline

- A war can cause economic decline because factories, roads, bridges, railway

networks and other types of capital goods are often destroyed.

- Natural disasters such as earthquakes, floods, droughts, etc. can reduce an economy's output.
- Economic sanctions against a nation place restriction on international trade and foreign investment.

2.3 All countries in the world face a scarcity problem and must make decisions about what to produce, how to produce and for whom to produce. In order to do that, each country must choose an economic system. Describe the main kinds of economic systems as well as the economic system used in Namibia and state why you say so? (8)

- A market economy (also referred to a Capitalism) is system that is based on the private property and market. It's property rights to individuals and business and they own all the houses, farms shops, hospitals and all the other business.
- The government owns all the productive resources as well as the business and decides what the local people will produce and sell.
- In a mixed economy there is private sector and public sector. The market is allowed to operate, that means most production decisions take place in the market between buyers and sellers.
- Namibia has a mixed economy. Many businesses are privately owned, but there are more than fifty owned enterprises in the country.

QUESTION 3 [10 marks]

Due to high company taxes prevailing in the auto mobile industries, the average prices of motor vehicle specifically sedan has increased from a N\$170 000 to a N\$190 000 and the quantity demand for sedan motor vehicle decreases from 1000 units to 800 units.

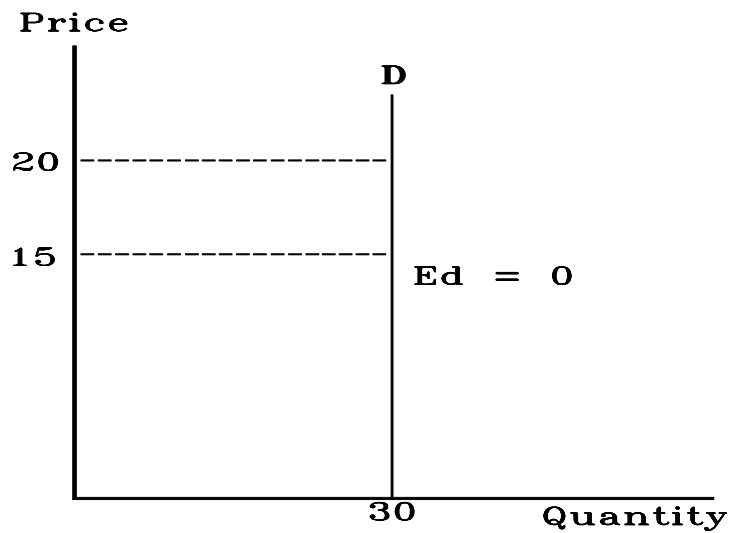
(a) Use the arc elasticity method to calculate the price elasticity of demand for sedan motor vehicle. (4)

$$\begin{aligned}
 E_d &= \frac{\frac{\Delta Q}{(Q_1 + Q_2)/2}}{\frac{\Delta P}{(P_1 + P_2)/2}} = \frac{\frac{200}{(1000 + 800)/2}}{\frac{20\,000}{(170\,000 + 190\,000)/2}} = \frac{200}{1800} \times \frac{360\,000}{20\,000} = \frac{72\,000\,000}{36\,000\,000} = 2 (>1)
 \end{aligned}$$

- (b) Graphically illustrate any 3 categories of price elasticity of demand and give an example of each. (6)

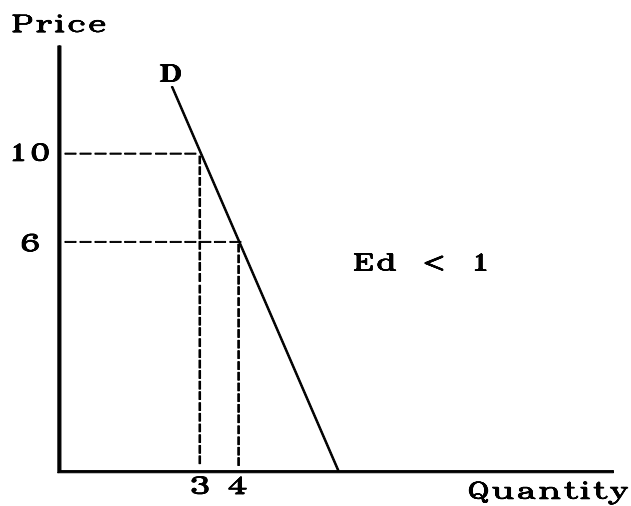
1 Mark for the graph and 1 mark for the Example.

Perfectly inelastic demand



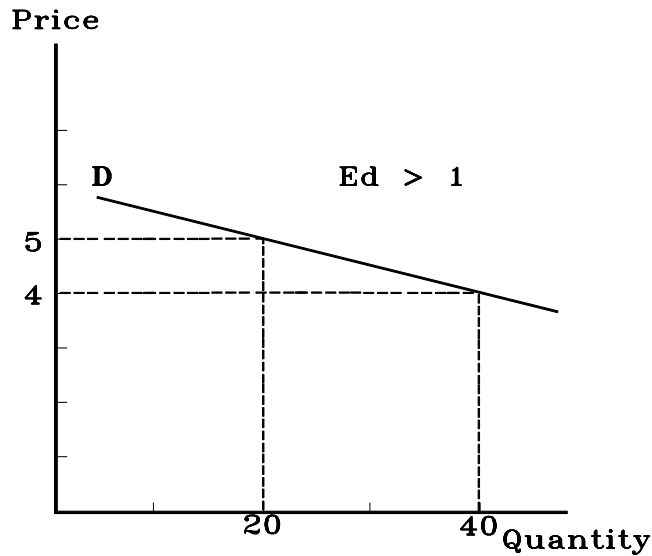
Example: Medicine for people with chronic diseases.

Relatively inelastic demand



Example: Goods with no substitutes such as electricity.

Relatively elastic Demand

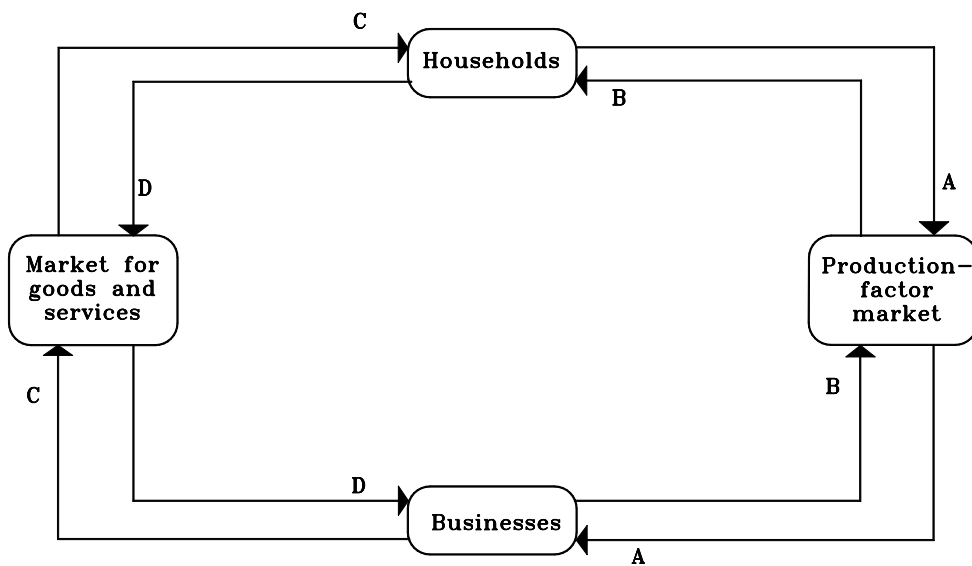


Example: Durable goods such as furniture's.

QUESTION 4 [10 marks]

4.1 With an illustration of a diagram show how resources, money, goods and services flow in the two sector circular flow.

(5)



4.2 Draw a diagram the depicts Economic profit for a firm under monopoly.

(5)

