FEEDBACK TUTORIAL LETTER

1ST SEMESTER 2017

ASSIGNMENT 1

PRINCIPLES OF MICROECONOMICS
[PMI511S]

MAY 2017
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,

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Principles of Microeconomics PMI511S 2016

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. b
2. c
3. b
4. c
5. c
6. c
7. d
8. d
9. a
10. a
11. d
12. c
13. c
14. c
15. d
16. a
17. c
18. d
19. d
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 [10 marks]
Use the concepts of demand and supply of milk. Graphically illustrate and explain what will happen to the equilibrium price and quantity given the following Scenario. Please treat the two scenarios below as separate events.

(a) The government gives a 20% subsidies to the milk industry for the production processes. (5)

The market is in equilibrium at price P1 and quantity Q1. The demand curve is D1 and the supply curve is S1.

- If the milk industry receive a 20% subsidies for their production processes, there will be an increase in supply.
- The supply curve will shift to the right from S1 to S2.
- Equilibrium price will decrease from P1 to P2.
- Equilibrium quantity will increase from $Q_1$ to $Q_2$.

3 marks for the graph and 2 marks for explanation.

(b) Due to pile up in stock of milk and milk being a non-durable good, the milk industry decide to lower the prices of milk.

3 Marks for the graph and 2 marks for the description.

- The market is in equilibrium at price $P_1$ and quantity $Q_1$. The demand curve is $D_1$ and the supply curve is $S_1$.
- Due to stock pile up supply increases, therefore supply curve will shift downwards to the right. Thus the new supply curve is $S_2$.
- Furthermore a decrease in price will cause a movement along the demand curve thus the equilibrium quantity will move from $Q_1$ to $Q_2$.
- The equilibrium price will decreases from $P_1$ to $P_2$. 
QUESTION 3 [10 marks]

Due to high company taxes prevailing in the automobile industries, the average prices of motor vehicle specifically sedan has increased from N$170 000 to 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.

\[
\frac{\Delta Q}{\frac{(Q_1 + Q_2)}{2}} \times \frac{\Delta P}{\frac{(P_1 + P_2)}{2}} = \frac{200}{1800} \times \frac{20 000}{360 000} = \frac{1}{2} \times \frac{1}{9} = \frac{1}{18} \approx 0.0556
\]

\[ Ed = 2 (>1) \]

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

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

Perfectly inelastic demand

[Graph showing a demand curve with a horizontal line at a price of 20 and a quantity of 30.]

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.
FEEDBACK TUTORIAL LETTER

1ST SEMESTER 2017

ASSIGNMENT 2

PRINCIPLES OF MICROECONOMICS

[PMI511S]
Dear Student

I hope you have received your first assignment back as well as the feedback tutorial letter for the first assignment. If you have not received these, please call your student support officer at COLL.

This tutorial letter is to give feedback on Assignment 2 of Principles of Microeconomics. Assure yourself of all the correct answers and pay attention to the remarks of the marker-tutor. Feel free to call me if you need assistance.

Use the time that you have available up to the end of the semester to do revision and prepare yourself for the examination.

Good Luck with the examinations!

Regards,

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Principles of Microeconomics PMI511S 2016

ASSIGNMENT 2

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

1. a
2. b
3. d
4. d
5. b
6. d
7. d
8. a
9. d
10. b
11. a
12. d
13. c
14. c
15. d
16. b
17. b
18. c
19. d
20. b

(20 marks)
SECTION B

Instruction: Please answer each question on a new, clean page.

QUESTION 1 [10 marks]

Patience loves eating out and wearing designer brands. The following table shows the utility that she derives from meals at La Perla and buying shoes at Lacoste. A meal costs N$150.00 and a pair of shoes costs N$300.00.

Table 1 Utility schedule

<table>
<thead>
<tr>
<th>Units</th>
<th>Eating Out (meals)</th>
<th>Designer shoes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TU</td>
<td>MU</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>1</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>2</td>
<td>270</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>330</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>375</td>
<td>45</td>
</tr>
</tbody>
</table>

1.1 Copy Table 1 into your assignment book and complete the columns for total utility (TU), marginal utility (MU) and MU/P.

The answers are printed in red. (0.5 x 16 = 8)

1.2 Patience has N$1 500.00 per month to spend on these two items. How many meals should she eat out and how many designer shoes must she buy in order to maximise her utility.

\[
\text{MU/P} = \text{MU/P} = 0.4
\]

4 meals x N$150 = N$600.00
3 designer shoes x N$600 = N$900.00
N$1 500.00

(2)
QUESTION 2 [10 marks]

Table 2 Cost schedule for producing bread.

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Cost (TC)</th>
<th>Total fixed cost (TFC)</th>
<th>Total Variable Cost (TVC)</th>
<th>Average Total Cost (ATC)</th>
<th>Average Fixed Cost (AFC)</th>
<th>Average Variable Cost (AVC)</th>
<th>Marginal Cost (MC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1000</td>
<td>1000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1</td>
<td>1500</td>
<td>1000</td>
<td>500</td>
<td>1500</td>
<td>1000</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>2</td>
<td>1900</td>
<td>1000</td>
<td>900</td>
<td>950</td>
<td>500</td>
<td>450</td>
<td>400</td>
</tr>
<tr>
<td>3</td>
<td>2250</td>
<td>1000</td>
<td>1250</td>
<td>750</td>
<td>333.33</td>
<td>417.17</td>
<td>350</td>
</tr>
<tr>
<td>4</td>
<td>2550</td>
<td>1000</td>
<td>1550</td>
<td>637.5</td>
<td>250</td>
<td>387.5</td>
<td>300</td>
</tr>
</tbody>
</table>

2.1 Copy Table 2 into your assignment book and fill in the gaps.

The answers are printed in red.

QUESTION 3 [10 marks]

Consider a firm that produces and sells candies. Table 3 refers to the total revenue the firm earns at different levels of output.

Table 3

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Revenue (TR)</th>
<th>Marginal Revenue (MR)</th>
<th>Average Revenue (AR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>40</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>70</td>
<td>30</td>
<td>23.33</td>
</tr>
<tr>
<td>4</td>
<td>104</td>
<td>34</td>
<td>26</td>
</tr>
<tr>
<td>5</td>
<td>125</td>
<td>21</td>
<td>25</td>
</tr>
</tbody>
</table>

3.1 Copy Table 3 into your assignment book and complete the columns for marginal and average revenue.

The answers are printed in red.