FACULTY	AGRICULTURE, ENGINEERING AND NATURAL SCIENCES		
SCHOOL	AGRICULTURE AND FISHERIES SCIENCES		
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SECOND OPPORTUNITY EXAMINATION PAPER

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Instructions

- The question paper consists of two sections, A and B.
- Answer All question questions
- Section A (40 marks) and questions in section B carry equal marks of 20 marks each
- Please write legibly and number your questions clearly
- This Question paper consists of eleven (11) pages including this front page

SECTION A (MULTIPLE CHOICE QUESTIONS) **[40 marks**
each question carries 1 mark each]

1. The difference between positive and normative economics is best summarized as saying that …

a) positive economics is optimistic, while normative economics is pessimistic.
b) positive economics is pessimistic, while normative economics is optimistic.
c) positive economics is objective, while normative economics is biased.
d) positive economics is biased, while normative economics is objective.
e) positive economics is descriptive, while normative economics is prescriptive.

2. The process by which goods and services are put to final use is referred to as ...

a) exchange.
b) resource management.
c) production.
d) consumption.
e) distribution.

3.The opportunity cost of producing any good or service is…

a) the value of all possible alternatives that are forgone.
b) the time required to produce the good or service.
c) the value of the best alternative that is forgone.
d) the cost of inputs required to produce the good.
e) the value of the worst alternative that is forgone.

4.Which one of the following is not a nonprice determinant of supply?

a) Available production technology
b) Consumers' income
c) Resource prices
d) The number of producers
e) The price of related goods and services

5.Which one of the following is not a nonprice determinant of demand?

a) The number of consumers
b) Producer expectations of future prices
c) Tastes and preferences
d) Prices of related goods and services
e) Available assets

6.Ignoring other changes, when the price of shoes rises, the result is …

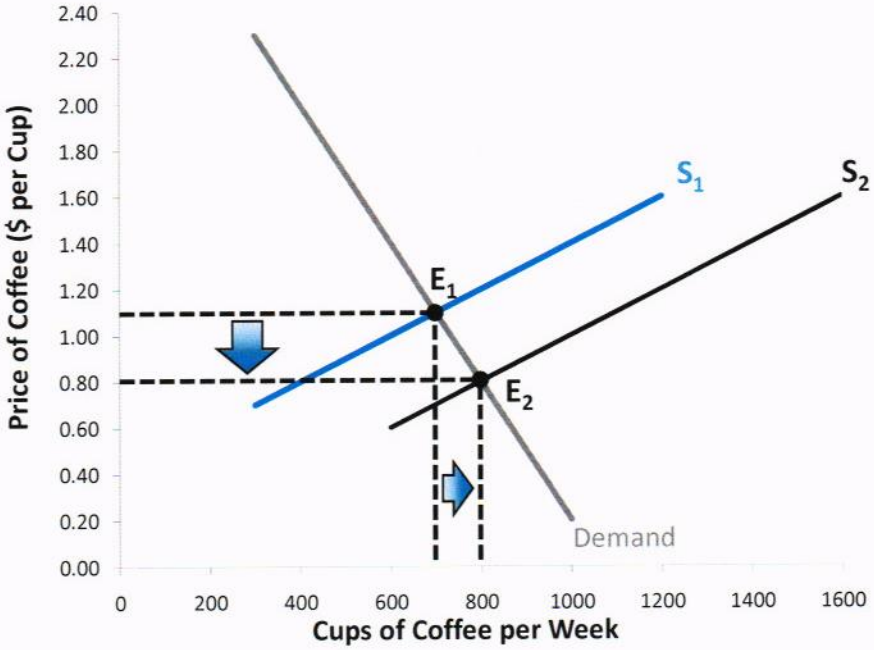
a) a fall in the demand for shoes.
b) a rise in the demand for shoes.
c) a fall in the supply of shoes.
d) a fall in the quantity of shoes demanded.
e) a fall in the quantity of shoes supplied.

7.A surplus occurs when ...

a) the quantity demanded exceeds the quantity supplied.
b) the quantity supplied exceeds the quantity demanded.
c) supply increases but the demand curve stays the same.
d) demand decreases but the supply curve stays the same.
e) supply increases and demand decreases.

8.The term ceteris paribus means…

a) "with certainty."
b) "under some conditions."
c) "holding all else constant."
d) "assuming the following."
e) "and so forth."



9.Refer to the graph above. The theory of market adjustment suggests that an increase in supply, ceteris paribus, will …

a) decrease the equilibrium price and increase the equilibrium quantity.
b) increase the equilibrium price and increase in the equilibrium quantity.
c) have no effect on equilibrium price and quantity.
d) increase the equilibrium price and decrease the equilibrium quantity.
e) increase the equilibrium price and have no effect on equilibrium quantity.

10.If the demand for coffee beans is inelastic, then a rise in the price of those beans will cause the coffee farmers' total revenues to …

a) rise.
b) fall.
c) stay the same.
d) fluctuate wildly, driving farmers into bankruptcy.
e) none of these.

11.Suppose we know that the price elasticity of demand for sandals is -1.4. A shoe stores normally sells 100 pairs of sandals each month. If it decides to raise the price of its sandals by 10%, how many sandals would it then sell per month?

a) 114
b) 99
c) 90
d) 86
e) 72

12.If prices rise by 10% and the quantity supplied rises by 12%, then the price elasticity of supply equals:

a) 0
b) 1
c) .83333
d) 1.2
e) 3/2

13.If we know that hiking shoes are a normal good, we can conclude that ...

a) the income elasticity of demand is equal to one.
b) the income elasticity of demand is positive.
c) the income elasticity of demand is zero.
d) the income elasticity of demand is negative.
e) the income elasticity of demand is greater than one.

14.If apples are a normal good, then...

a) an increase in the price of apples will increase demand for apples..
b) an increase in the price of apples will increase total revenues of apple producers.
c) an increase in income will decrease demand for apples.
d) an increase in income will not affect the demand for apples.
e) an increase in income will increase demand for apples.

15.An inferior good in which the income effect dominates the substitution effect is called...

a) a normal good.
b) a luxury good.
c) a Giffen good.
d) a mass-produced good.
e) a favored good.

16.A good with a vertical demand curve is a good with…

a) perfectly inelastic demand.
b) unit-elastic demand.
c) price elasticity of one.
d) perfectly elastic demand.
e) unstable elasticity.

17.The price elasticity of demand for cigarettes has been estimated to be -0.4 in developed countries. If cigarette producers raise their prices by 10%, what will happen to the percent change in quantity demanded?

a) It will increase by 4%.
b) It will decrease by 0.4%
c) It will decrease by 4%.
d) It will decrease by 40%
e) It won't change.

18.What is the income elasticity of demand for normal goods?

a) positive.
b) negative.
c) zero.
d) infinite.
e) undefined.

19.Another name for a demand curve is …

a) a marginal benefit curve.
b) a total benefit curve.
c) a marginal cost curve.
d) a marginal surplus curve.
e) a total cost curve.

20.Which one of the following statements is true?

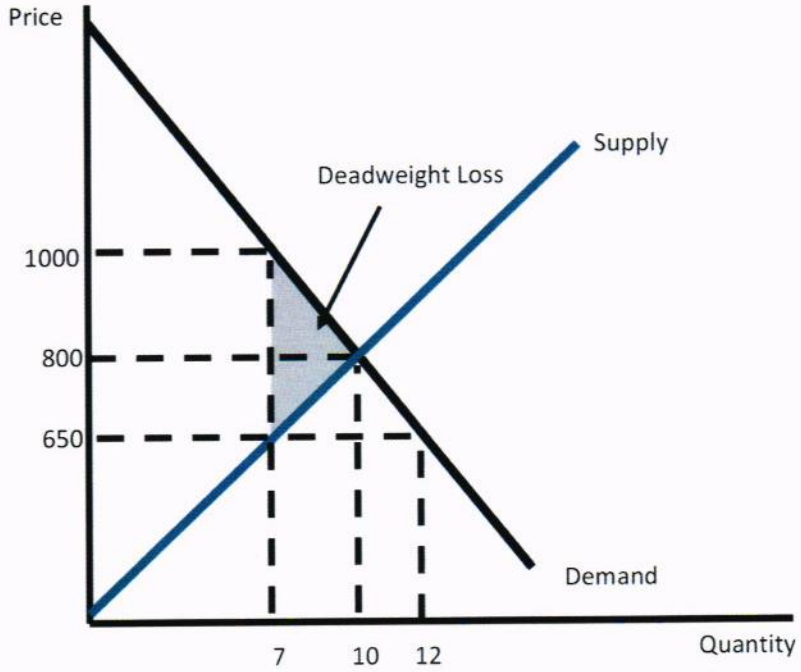
a) A price floor will always increase consumer surplus.
b) A price ceiling will always increase consumer surplus.
c) A price floor will always decrease consumer surplus.
d) A price ceiling will always decrease consumer surplus.
e) A price floor will always increase social welfare.

21.What is the definition of market failure?

a) Markets fail to produce equitable outcomes
b) Markets fail to consider environmental impacts
c) Markets fail to reach equilibrium
d) Markets fail to transfer benefits
e) Markets fail to maximize social welfare

22.A market failure occurs when…

a) a market leads to an unfair outcome.
b) a market generates consumer surplus but no producer surplus.
c) an unregulated market produces a socially inefficient outcome.
d) a price floor results in deadweight loss.
e) a price ceiling shifts surplus from producers to consumers.



23.Refer to the figure above. Imagine that a price ceiling of $650 has been implemented in the above graph. What would be the resulting quantity under this scenario?

a) 0
b) 7
c) 10
d) 12
e) There is not enough information to answer the question.

24.How will an increase in the price of one item change a consumer's budget line?

a) The budget line will rotate toward the origin.
b) The budget line will rotate away from the origin.
c) The budget line will shift outward.
d) The budget line will shift inward.
e) The budget line will not change.

25.Diminishing marginal utility means that ...

a) the more money a consumer spends, the less is available to purchase other goods.
b) money should be transferred from wealthy people to poor people.
c) utility cannot be compared across different people.
d) additional units of consumption produce less additional utility than previous units.
e) utility always increases through additional consumption.

26. Which one of the following was not discussed in the text as a main contributor to variations in labor productivity?

a) The efficiency with which workers apply their skills
b) The skills of the worker
c) The level of effort with which workers work
d) The opportunity cost workers face for paid labor
e) The quantity and the characteristics of the resources available to each worker

27. What are the two characteristics of a public good?

a) Excludable and nonrival
b) Nonexcludable and nonrival
c) Excludable and rival
d) Excludable and nonrival
e) Free and inaccessible

28. Which one of the following is an economic, but not an accounting, cost?

a) The cost of paper
b) The wages a business owner could have received from a full-time job elsewhere
c) The wages paid to a part-time employee
d) Taxes
e) Interest paid on a loan

29. External costs are …

a) the difference between marginal social benefits and marginal social costs.
b) the difference between social costs and economic costs.
c) the difference between benefits and costs.
d) the difference between marginal and average costs.
e) costs suffered outside the Earth's atmosphere.

30. Which one of the following is the best example of a fixed input?

a) Labor hired daily
b) A factory owned by a firm
c) Rented machinery
d) Gasoline
e) Staples

31. The relationship between a firm's level of output and level of inputs is given by ...

a) a marginal cost curve.
b) a production function.
c) a production possibilities frontier.
d) an average cost curve.
e) an economic cost curve.

32. At a total cost of $3,100, a company can produce 4 scooters. It has fixed costs of $1,000. If it produces 5 scooters, the costs of production total $3,800. Which of the following statements is true?

a) Variable costs of producing 4 scooters total $2,100.
b) The marginal cost of producing the fifth scooter is $1000.
c) The average (or per unit) cost of producing 5 scooters is $300 per scooter.
d) Fixed costs will be higher when it produces 5 scooters.
e) The total cost curve for this firm is downward sloping.

33. The U shape of the long-run average (total) cost curve is primarily due to …

a) indivisible set-up costs.
b) economies and diseconomies of scale.
c) technological change and learning by doing.
d) government discouragement of small firms and extremely large ones.
e) initially increasing, but eventually diminishing marginal productivity of the variable input.

34.Suppose that annual tuition at your college is $10,000, room-and-board costs $12,000, and you are giving up the opportunity to work at McDonalds for $16,000. What is your accounting cost of attending college?

a) $6,000
b) $10,000
c) $12,000
d) $22,000
e) $38,000

35.Consider a farmer who can increase the amount of wheat he grows per acre by using more fertilizer. If the farmer faces diminishing marginal returns to fertilizer, he must also face…

a) decreasing marginal costs.
b) constant marginal costs.
c) increasing marginal costs.
d) economies of scale.
e) tragedy of the commons.

36. The economists' view of market power and competition is that ...

a) competition and market power are both desirable.
b) competition is generally desirable but market power is normally undesirable.
c) competition is generally undesirable but market power is normally desirable.
d) competition and market power can both be undesirable.
e) None of the above

37. In a perfectly competitive market, the demand curve facing each individual seller is assumed to be …

a) perfectly inelastic
b) moderately inelastic
c) unit elasticity
d) moderately elastic
e) perfectly elastic

38. Which one of the following is not an assumption of the perfectly competitive model…

a) Within any particular market, all of the goods are identical.
b) Consumers have perfect information about the goods they are buying.
c) Firms seek to maximize social welfare.
d) There are many buyers and sellers.
e) Producers can freely enter or exit the industry.

39. In a perfectly competitive market…

a) there are few buyers and sellers.
b) products are differentiated.
c) neither sellers nor buyers have market power.
d) outcomes are equitable.
e) externalities do not cause inefficiencies.

40. The market structure where there are so few sellers that each one needs to watch what the others are doing is referred to as ...

a) perfect competition.
b) pure monopoly.
c) monopsony.
d) monopolistic competition.
e) oligopoly.

SECTION B **[60 marks]**

Question 1 **[20]**

a) In any potato market, the potato price below which the potato producer will refuse to sell any quantity of potatoes is known as reserve price. Briefly discuss the factors that the potato producer should consider in determining the reserve price. (10)

b) Given that $TC = 1000 + 0.02Q^2$

Find:

(i) Total Fixed costs (3)
(ii) ATC (3)
(iii) MC (4)

Question 2 **[20]**

a) Suppose the demand curve for Horse Mackerel fish in the northern part of Namibia is given by $Q_d = 300 - 2p + 4I$, where I is the average income of the people living in the north. The supply curve of Horse Mackerel fish in the northern part of Namibia is as follow, $Q_s = 3P - 50$.

i. If the average income (I) of the people living in the north is $I = 25$, find the market-clearing price and market-clearing quantity for the Horse Mackerel fish in the north market. (3)

ii. If the average income (I) of the people living in the north increases and become $I = 50$, find the market-clearing price and market-clearing quantity for the Horse Mackerel fish in the north market. (3)

iii. Draw a graph to illustrate your answers in a) and b) (4)

b) Mr. Shivute is always willing trade one can of Coke for one can of Sprite, or one can of Sprite for one can of Coke.

i. What can you say about Mr. Shivute's marginal rate of substitution (MRS)? (1.5)

ii. Draw Mr. Shivute's indifference curve for the above scenario (1)

iii. With a help of a budget line, illustrate the point of satisfaction-maximizing choice for Mr. Shivute. (1.5)

iv. What are the important properties that Mr. Shivute's indifference curve should have? Explain the significance or meaning of each. (6)

Question 3 **[20]**

a) Globally, the scarcity of resources relative to human wants gives rise to various central problem of an economy. Explain briefly the central basic problem of an economy. (8)

b) Explain the relationship between the total revenue of NamSov Fishing Firm and the price elasticity of demand when

   a. Price elasticity of Hake Fish is greater than one ($ep > 1$) and there is an increase in the price. (2)

   b. Price elasticity of Horse Mackerel fish is less than one ($ep < 1$) and there is an increase in the price (2)

   c. Price elasticity of Tilapia fish is equal to one ($ep = 1$) and there is an decrease in the price (2)

c) Explain the concept of income price elasticity of demand. How would you define necessities and luxuries on the basis of income elasticity of demand? (3)

d) Explain the concept of cross elasticity of demand. Using the concept of cross elasticity of demand, define substitutes and complements. (3)

THE END