



INTI
International College Penang
LAUREATE INTERNATIONAL UNIVERSITIES*

FINAL
Examination Paper

(COVER PAGE)

Session : August 2017

Programme : Certificate in Business Studies (CBSI)

Course : ECO1001: Principles of Economics

Date of Examination : 7 December 2017 (Thursday)

Time : 11:00am – 1:00pm Reading Time : Nil

Duration : 2 hours

Special Instructions :

This paper consists of **THREE (3)** sections.

Section A: Answer **ALL** the questions in the OMR sheet provided.

Section B: Answer any **ONE (1)** out of **TWO (2)** questions in the answer booklet provided.

Section C: Answer any **ONE (1)** out of **TWO (2)** questions in the answer booklet provided.

Materials permitted :

Non-Programmable Scientific Calculator

Materials provided :

OMR Sheet

Examiner(s) : Khor Kok Chin

Moderator : Dr. Goh Soo Khoon

This paper consists of 9 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG
 CERTIFICATE IN BUSINESS STUDIES (CBSI)
 ECO1001: PRINCIPLES OF ECONOMICS
 FINAL EXAMINATION: AUGUST 2017 SESSION

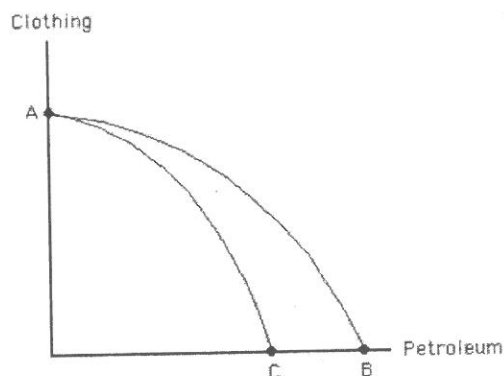
SECTION A (50 marks)

Instructions: This section consists of 25 multiple choice questions. Answer ALL the questions in the OMR sheet provided. Each question carries 2 marks.

1. Economics is the study of _____.
 - A. how society manages its unlimited resources
 - B. how to reduce our wants until we are satisfied
 - C. how society manages its scarce resources
 - D. how to avoid having to make trade-offs

2. Microeconomics is concerned with _____.
 - A. the economy as a whole
 - B. the electronics and manufacturing industries
 - C. the study of individual economic behavior
 - D. the interactions within the entire economy

3. Which of the following could explain the shift in the production possibilities frontier from AC to AB shown in the figure below?



- A. Technical improvements in both petroleum and clothing production.
- B. A productive improvement in clothing production that has no effect on petroleum production.
- C. A decrease in the size of the labor force that can produce either petroleum products or clothing.
- D. Major oil reserves are discovered at the coast of Africa.

4. Which of the following might lead to a decrease in the demand for a product that can be stored?
- A. A fall in the price of complement.
 - B. A rise in consumer incomes and the product is an inferior product.
 - C. An increase in the number of buyers.
 - D. An expected rise in price of the good.
5. If input prices increase, all else being equal, _____.
- A. quantity supplied will decrease
 - B. supply will increase
 - C. supply will decrease
 - D. demand will decrease
6. An increase in the supply of a good will cause _____.
- A. an increase in equilibrium price and quantity
 - B. a decrease in equilibrium price and quantity
 - C. an increase in equilibrium price and a decrease in equilibrium quantity
 - D. a decrease in equilibrium price and an increase in equilibrium quantity
7. If a movement on demand curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is _____.
- A. - 0.83
 - B. - 0.3
 - C. - 0.6
 - D. - 1.2
8. The more substitutes available for a product, _____.
- A. the larger is its income elasticity of demand
 - B. the smaller is its income elasticity of demand
 - C. the smaller is its price elasticity of demand
 - D. the larger is its price elasticity of demand
9. If nothing changes except that producers sell more of a good or service when the price increases, we know this is an example of the law of _____.
- A. increasing profit
 - B. supply
 - C. demand
 - D. opportunity cost

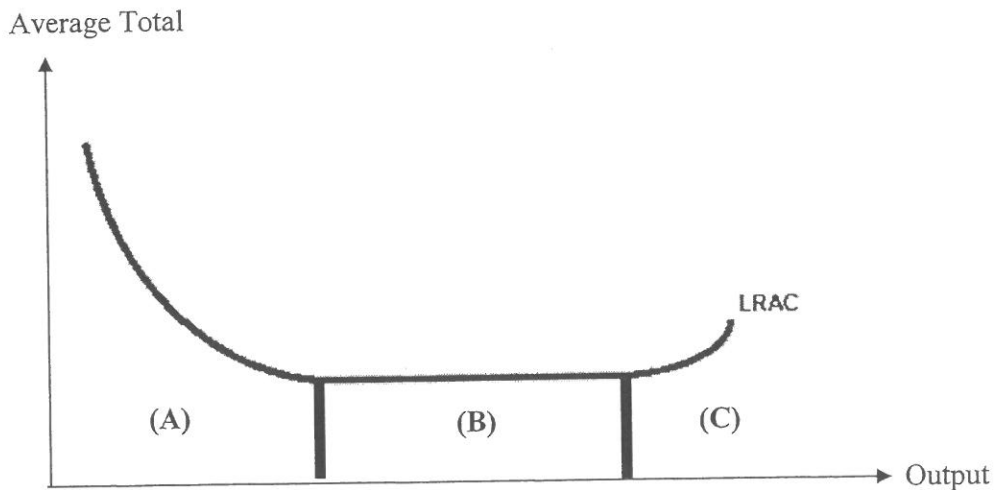
10. If a drought in Ecuador reduces the amount of apples grown, then _____.

- A. the demand curve of Ecuador apples shifts to the left
- B. the demand curve of Ecuador apples shifts to the right
- C. the supply curve of Ecuador apples shifts to the left
- D. the supply curve of Ecuador apples shifts to the right

11. Beverly sells 100 containers of homemade cookies for RM10 each. The cost of the ingredients, the containers, and the labels was RM700. In addition to that, it took her 20 hours to make the cookies and to do so she took time off from a job that paid her RM20 per hour. Beverly's accounting profit is _____ while her economic profit is _____.

- A. RM700; RM400
- B. RM300; RM100
- C. RM300; -RM100
- D. RM1000; -RM1100

12. Based on the below ATC graph, constant returns to scale will be identify at _____.



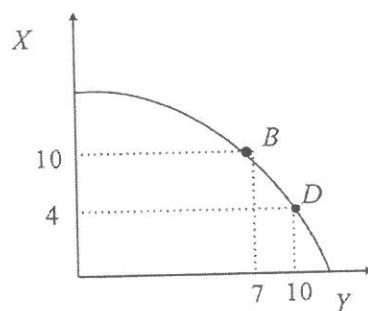
- A. (A)
- B. (B)
- C. (C)
- D. None

13. Diseconomies of scale are **NOT** encounter until _____.

- A. small scale of output has been achieve
- B. considerably average scale of output has been achieve
- C. large scale of output has been achieve
- D. considerably minimum scale of output has been achieve

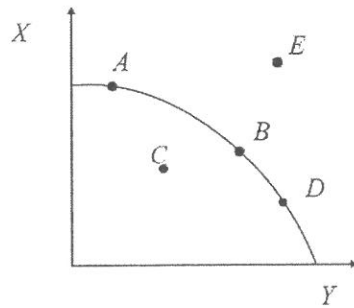
14. Suppose that the note pad industry is perfectly competitive. Also, assume that the market price for note pad is RM10 per note pad. The demand curve faced by each firm in the industry is:
- A horizontal line at \$10 per note pad
 - A vertical line at \$10 per note pad
 - The same as the market demand curve for note pad
 - Always higher than the firm's marginal curve.
15. Silverstone Tyre Service Centre is a perfectly competitive firm which has a fixed cost of RM10, 000 per month. The market price at which it can sell its output is RM100 per tyre. The service centre's minimum AVC is RM105 per tyre. The centre is currently producing 500 tyres a month (the output level at which $MR=MC$). This service centre is making a _____ and should _____ production.
- profit; increase
 - profit; shutdown
 - loss; increase
 - loss; shutdown
16. Monopoly price can decreased and output increased through _____.
- price discrimination rules
 - market supply
 - government regulations
 - strike
17. If there are economies of scale _____.
- short run average cost rises
 - short run average cost falls
 - long run average costs falls
 - long run average costs rises
18. What is the most important characteristic of perfect competition?
- Sellers can control the price.
 - There are many buyers and a few sellers.
 - Each seller has at least one powerful competitor to worry about.
 - Every buyer and seller is a price taker – none has the power to set price
19. In a monopoly market, the condition that is necessary for profit maximization is _____.
- marginal cost is a minimum
 - average costs is at a minimum
 - marginal cost equals average cost
 - marginal costs equal marginal revenue

20. Suppose a firm in a purely competitive market discovers that the price of its product is above its minimum AVC point but anywhere below its ATC. Given this, the firm _____.
- A. should close down at once
 - B. maximizes profits by producing where $MR=ATC$
 - C. minimizes losses by producing at the minimum point of its AVC curve
 - D. should continue producing in the short run
21. When the firm produces zero output, its variable cost is
- A. zero
 - B. the same as price
 - C. the same as total cost
 - D. the same as fixed cost
22. A competitive firm cannot affect its own output price because
- A. price is determined by consumers, not producers.
 - B. market demand is perfectly elastic.
 - C. it is only one firm among many, so the price is determined in the market as a whole.
 - D. consumer preferences dictate a single price in a competitive market.
23. Marginal cost is
- A. the extra total cost incurred from increasing output by one unit.
 - B. total cost divided by output.
 - C. variable cost divided by output.
 - D. a cost that was tie up to the taxes of firms.
24. The opportunity cost of moving from Point D to Point B is _____.



- A. 4 units of X
- B. 6 units of Y
- C. 10 units of Y
- D. 3 units of Y

25. Point C in below diagram would most likely represent _____.



- A. an unattainable point
- B. inefficiency
- C. the best possible choice
- D. an equally acceptable alternative available to society

SECTION B (25 marks)

Instructions: This section consists of 2 short answer questions. Answer any **ONE (1)** out of **TWO (2)** questions.

Question 1

a) Answer the following questions based on the data given below.

Production Combination	Pizzas (unit)	Robots (unit)
A	180	0
B	170	10
C	150	20
D	100	30
E	0	40

- i) Draw the Production Possibilities Curve with Robots at the X-axis. (5 marks)
- ii) Identify and justify the situation when produce at:
 - Production of 160 pizzas and 30 robots (2 marks)
 - Production of 150 pizzas and 20 robots (2 marks)
 - Production of 140 pizzas and 10 robots (2 marks)
- iii) Calculate the opportunity cost for below:
 - Point A move to Point C (2 marks)
 - Point E move to Point B (2 marks)

- b) Using a diagram, illustrate a new market equilibrium diagram, according to the incident below:
- A new shoe company if form in the shoe market. What happen to the price and quantity of shoe?
(5 marks)
 - When a community start to buy extra toilet paper. What happen to the price and quantity of toilet paper?
(5 marks)

Question 2

- a) Given a hypothetical data for Peter consumption as per below:

Price of Hamburger	Quantity Demanded of Hamburger per week for Peter	Quantity Demanded for Ketchup per week for Peter	Quantity Demanded for Hotdog per week for Peter
RM5	10	5	5
RM7	6	3	11

- Define Price Elasticity of Demand.
(1 mark)
 - According to table above, calculate Price Elasticity of Demand for Hamburger by using midpoint method.
(4 marks)
 - According to table above, identify the relationship between Hamburger and Ketchup by using Cross Elasticity of Demand, when price of Hamburger increase from RM5 to RM7.
(4 marks)
 - According to table above, identify the relationship between Hamburger and Ketchup by using Cross Elasticity of Demand, when price of Hamburger increase from RM5 to RM7.
(4 marks)
- b) The table below shows the relationship between Total Cost and Total Output for a firm.

Output	Fixed Cost (RM)	Variable Cost (RM)	Total Cost (RM)
0	50	0	50
10	50	20	70
20	50	50	100
30	50	90	140
40	50	140	190
50	50	200	250

- According to the table above, please calculate the below for each level of production (leave your answer in 2 decimal points):
 - Average Total Cost (ATC)
 - Average Fixed Cost (AFC)
 - Average Variable Cost (AVC)
 - Marginal Cost (MC)

SECTION C (25 marks)

(12 marks)

Instructions: This section consists of 2 essay questions. Answer any **ONE (1)** out of **TWO (2)** questions.

Question 1

- a) Differentiate Accounting Profit and Economic Profit with appropriate examples.

(10 marks)

- b) Explain the **FIVE (5)** internal economies of scale in long run production.

(15 marks)

Question 2

- a) Explain the **FIVE (5)** characteristic of perfect competition market structure.

(10 marks)

- b) Explain the **THREE (3)** types of profits that a perfect competition firm possible earn with appropriate diagram.

(15 marks)

-The End-

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