

INTI INTERNATIONAL COLLEGE PENANG  
FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)  
ECO1207: MICROECONOMICS  
FINAL EXAMINATION : APRIL 2013 SESSION

**Section A**

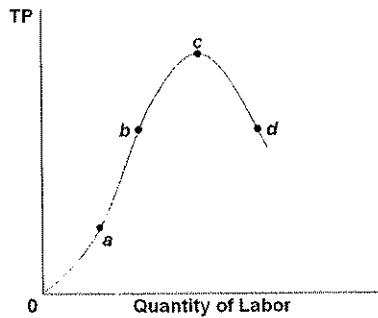
**Instructions:** This section consists of 20 questions. Answer ALL questions in the OMR sheet provided. All questions carry equal marks.

- 1) Economics is essentially concerned with
  - (A) our trade with other countries
  - (B) how government make policy decision
  - (C) scarcity and choice
  - (D) all business matters
  - (E) political stability
  
- 2) The three basic functions of an economy are to determine
  - (A) How and whom to produce and where to produce
  - (B) What, how and where to produce
  - (C) What, how and why to produce
  - (D) What, how and for whom to produce
  - (E) All the above
  
- 3) Which of the following is *not* one of the categories of resources?

(A) Land	(D) Shares
(B) Labour	(E) Entrepreneurial abilities
(C) capital	
  
- 4) The market system is characterized by:
  - (A) extensive government constraints on individual behavior.
  - (B) private ownership of the means of production.
  - (C) government control of all production decisions.
  - (D) government rationing of all goods and services.
  - (E) government control of the market prices.
  
- 5) In the simple circular flow model:
  - (A) households are sellers of resources and buyers of products.
  - (B) households are sellers of products and buyers of resources.
  - (C) businesses are sellers of resources and buyers of products.
  - (D) businesses are sellers of both resources and products.
  - (E) businesses are buyers of both resources and products.

- 6) Which of the following is an example of a positive statement?
- (A) The government should not redistribute income.
  - (B) The rich people should help the poor.
  - (C) As the price of houses decreases, the quantity demanded will increase.
  - (D) Households should save more.
  - (E) The government ought to reduce tax rates.
- 7) Economic growth is depicted by
- (a) an outward shift of the PPC.
  - (b) a movement along the PPC.
  - (c) an inward shift of the PPC.
  - (d) a movement from inside the PPC towards the curve.
  - (e) a decrease in price level.
- 8) Demand is defined as
- (a) the quantity of a good purchased at a particular price and at a particular time .
  - (b) the quantity of a good purchased from the government.
  - (c) the quantity of a good that people are willing and able to buy at various prices.
  - (d) the quantity of resources needed to produce all our goods and services.
  - (e) None of the above.
- 9) The aging of the population stimulates the demand for
- (a) luxury vacation cruises.
  - (b) urban real estate.
  - (c) rock music
  - (d) television classics.
  - (e) health care
- 10) The specific quantity of a good that sellers are willing and able to sell at a given price is the
- (a) supply.
  - (b) shortage of supply.
  - (c) surplus of supply.
  - (d) quantity bought.
  - (e) quantity supplied.
- 11) When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:
- (A) elastic.
  - (B) inelastic.
  - (C) cross-elastic.
  - (D) unitary elastic.
  - (E) perfectly elastic.

- 12) If total revenue falls as price rises, then the demand for the product
- (a) is elastic.
  - (b) is unit-elastic.
  - (c) is inelastic.
  - (d) has a slope smaller than 1
  - (e) is upward-sloping.



- 13) Refer to the above graph. It shows the total product (TP) curve. At which point does diminishing marginal returns set in?
- (A) Point *a*
  - (B) Point *b*
  - (C) Point *c*
  - (D) Point *d*
  - (E) Point *b* or point *d*
- 14) Refer to the above graph. It shows the total product (TP) curve. At which point is output at its maximum?
- (A) Point *a*
  - (B) Point *b*
  - (C) Point *c*
  - (D) Point *d*
  - (E) More information is needed to tell.
- 15) The short run is characterized by a situation where
- (A) the output is constant.
  - (B) the size of plant is fixed.
  - (C) there are no fixed costs.
  - (D) the plant size increases.
  - (E) the size of plant is optimum.
- 16) If average variable cost is at a minimum then
- (A) marginal cost equals average total cost.
  - (B) marginal costs equals average variable cost.
  - (C) average variable costs equals average fixed cost.
  - (D) average variable cost equals average total cost.
  - (E) None of the above.

- 17) Economic profit is the difference between a firm's total revenue and its
- (A) average costs.
  - (B) explicit costs.
  - (C) opportunity costs not measured by explicit costs.
  - (D) accounting costs.
  - (E) economic costs.
- 18) The income elasticity of demand for an inferior good is
- (A) negative
  - (B) positive
  - (C) zero
  - (D) infinite
  - (E) 1
- 19) Which of the following goods are likely to have a positive cross-price elasticity?
- (A) Coffee and sugar
  - (B) Butter and margarine
  - (C) Bread and butter
  - (D) Tires and cars
  - (E) All of the above
- 20) An individual firm in a perfectly competitive industry faces a demand curve which is
- (A) downward sloping.
  - (B) upward sloping.
  - (C) horizontal.
  - (D) relatively inelastic.
  - (E) specific to each firm.

**Section B**

**Instructions:** This section consists of **FOUR (4)** questions. Answer any **THREE (3)** questions in the answer booklet provided. All questions carry equal marks.

**Question 1**

The table shows the quantities of corn and beef that a farm can produce in a year. Label beef on the horizontal axis.

<b>Corn (bushels)</b>	<b>and</b>	<b>Beef (pounds)</b>
250	and	0
200	and	300
100	and	500
0	and	600

- (a) Draw a graph of the farm's production possibility curve. Indicate "Beef" on the x-axis and "Corn" on the y-axis. (4 marks)
- (b) Mark on the graph and explain:
- (i) an inefficient combination of corn and beef—label this point *A*. (3 marks)
- (ii) An unattainable combination of corn and beef—label this point *B*. (3 marks)
- (iii) An efficient combination of corn and beef—label this point *C*. (3 marks)
- (c) List the four assumptions of production possibility model. (4 marks)
- (d) Will economic growth necessarily involve a parallel outward shift of the production possibility curve? Why? (3 marks)

**Question 2**

- (a) Indicate whether the supply or demand “*increases*”, “*decreases*” or “*no effect*” and draw a diagram to illustrate your answer.
- (i) The number of producers of the product increases. (2 marks)
- (ii) Consumers expect higher prices in the future. (2 marks)
- (iii) The price of the product goes up. (2 marks)
- (iv) The cost of an input increases. (2 marks)
- (v) The price of a substitute in production increases. (2 marks)
- (b) Explain and illustrate with diagrams the difference between a change in demand and a change in quantity demanded. (10 marks)

**Question 3**

- (a) The table shows the demand and supply schedules for boxes of chocolates in an average week.

Price (dollars per box)	Quantity demanded (boxes per week)	Quantity supplied (boxes per week)
13.00	1,600	1,200
14.00	1,500	1,300
15.00	1,400	1,400
16.00	1,300	1,500
17.00	1,200	1,600
18.00	1,100	1,700

- (i) If the price of chocolates is \$17 a box, describe the situation in the market. (5 marks)
- (ii) Describe how market equilibrium is restored from the market situation you identified in (i). (5 marks)

(b) During Valentine's week, more people buy chocolates. With the aid of a diagram, explain what will happen to equilibrium price and quantity. (5 marks)

(c) Assume the current market price of chocolates is \$15 a box. A decrease in the price of chocolates to \$13 a box will increase the quantity demanded for chocolates. Calculate the price elasticity of demand using mid-point method. Show all workings. (5 marks)

#### Question 4

(a) Describe any THREE characteristics of a purely competitive market. (6 marks)

(b) Outline any TWO barriers to entry that give rise to monopoly. Give an example of each barrier. (6 marks)

(c) Below is the cost information for a firm operating in a perfect competitive market.

Quantity	Total Cost (TC)
0	12
1	16
2	18
3	24
4	36
5	50

(i) Find the values for average total cost (ATC) and marginal cost (MC) at each level of output. (3 marks)

(ii) At a fixed price of \$12 per unit, find the profit-maximizing level of output and the total profit for the firm. Show all workings. (5 marks)

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