



**FINAL**  
Examination Paper

(COVER PAGE)

Session : April 2017

Programme : Foundation In Business Information Technology (CFPI)

Course : ECO1207: Microeconomics

Date of Examination : 28 July 2017 (Friday)

Time : 2:00pm – 4:00pm Reading Time : Nil

Duration : 2 Hours

**Special Instructions :**

This paper consists of **TWO (2)** sections.

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

**Section B:** Answer any **THREE (3)** out of the **FOUR** questions.

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

## FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY (CFPI)

## ECO1207: MICROECONOMICS

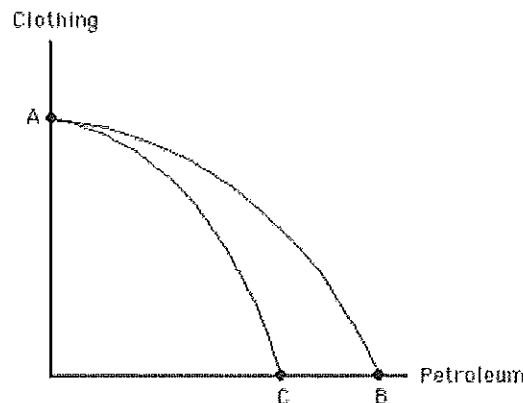
## FINAL EXAMINATION: APRIL 2017 SESSION

**Section A (40 marks)**

**Instructions:** This section consists of **TWENTY (20)** questions. Answer **ALL** questions in the OMR sheet provided.

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 above?

- 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 off 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 substitute.
  - 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 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 rightward shift of the supply 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. The long-run average total cost curve is often called the firm's:
- A. Planning Curve
  - B. Capital Expansion Path
  - C. Total Product Curve
  - D. Production Possibilities Curve

10.

Product X		Product Y	
Quantity	Marginal Utility	Quantity	Marginal Utility
1	32	1	24
2	28	2	20
3	24	3	16
4	20	4	12
5	16	5	8

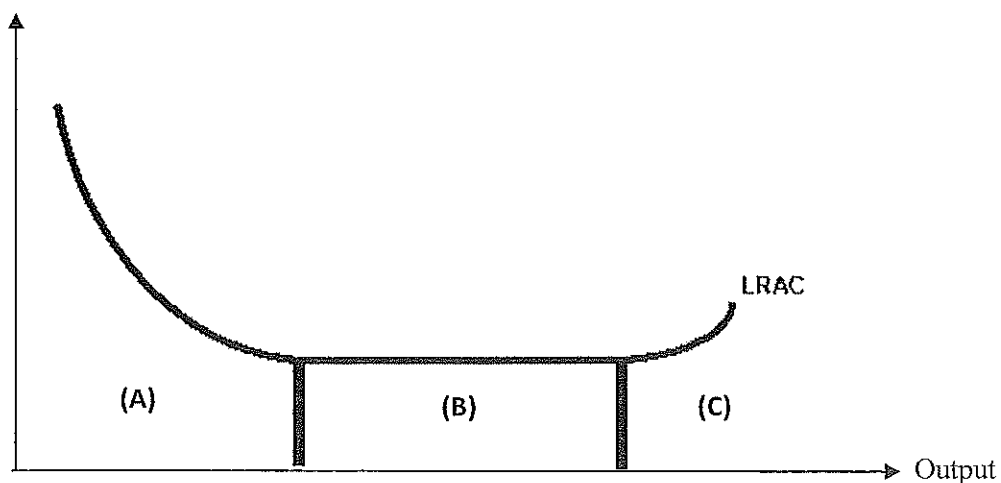
The table above shows marginal utility schedule for product X and product Y for hypothetical consumer. The price of X is RM4 and the price of product Y is RM2. The income of the consumer is RM20. If the consumer can only buy product X, how much will the consumer buy and what will be the total utility?

- A. 4X and 20
- B. 4X and 104
- C. 5X and 16
- D. 5X and 120

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. Average Total Cost



Based on the above ATC graph, constant returns to scale will be identified at:

- A. (A)
- B. (B)

- C. (C)  
D. None
13. Diseconomies of scale are NOT encountered until \_\_\_\_\_.
- A. A considerably small scale of output has been achieved  
B. A considerably average scale of output has been achieved  
C. A considerably large scale of output has been achieved  
D. A considerably minimum scale of output has been achieved
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. A horizontal line at \$10 per note pad  
B. A vertical line at \$10 per note pad  
C. The same as the market demand curve for note pad  
D. 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.
- A. profit; increase  
B. profit; shutdown  
C. loss; increase  
D. loss; shutdown
16. Monopoly price can be reduced and output increased through \_\_\_\_\_.
- A. price discrimination rules  
B. market demand  
C. government regulations  
D. strike
17. If there are economies of scale \_\_\_\_\_.
- A. short run average cost rises  
B. short run average cost falls  
C. long run average costs falls  
D. long run average costs rises
18. What is the most important characteristic of perfect competition?
- A. Sellers can control the price.  
B. There are many buyers and a few sellers.  
C. Each seller has at least one powerful competitor to worry about.  
D. Every buyer and seller is a price taker – none has the power to set price

19. In a monopoly market, the condition that's necessary for profit maximization is \_\_\_\_\_.
- A. marginal cost is a minimum
  - B. average costs is at a minimum
  - C. marginal cost equals average cost
  - D. 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 but leave the industry in the long run

**Section B (60 marks)**

**Instructions:** This section consists of FOUR (4) questions. Answer any **THREE (3) out of the FOUR questions**. Each question carries 20 marks.

**Question 1**

- (a) Explain **FOUR (4)** types of production's factors with appropriate example. (8 marks)
- (b) Distinguish the different of Positive Economics and Normative Economics with appropriate example. (6 marks)
- (c) Explain Microeconomics' objectives with appropriate justification. (6 marks)

**Question 2**

- (a) (i) Define Production Possibility Curve (2 marks)
- (ii) Explain the **FOUR (4)** assumptions for Production Possibility Curve. (4 marks)
- (b) Consider a simple economy producing two goods: cars and milk. The following table gives several points on the economy's production possibilities.

Cars (1000's/year)	Milk (1000's of gallons/ year)
0	60
1	50
2	30
3	0

- (i) Draw the economy's production possibility frontier as Cars at Axis-X. (4 marks)
- (ii) Why is the production possibility frontier downward sloping? (4 marks)
- (iii) Suppose the economy is currently producing 2000 cars and 30,000 gallons of milk. What is the opportunity cost of producing additional 20,000 gallons of milk? (2 marks)
- (iv) The synthetic production of Bovine Growth Hormone (BGH) allows dairy farmers to get twice as much milk from each cow. Explain carefully, using an appropriate diagram to illustrate your answer (*show your illustration in the same diagram*). (4 marks)

**Question 3**

- (a) The price of spring water rises from \$1.90 to \$2.10 a bottle, and the quantity demanded decreases from 11 million to 9 million bottles a week.
- (i) Using the midpoint method, calculate the percentage change in the price of spring water. (2 marks)
- (ii) Using the midpoint method, calculate the percentage change in the quantity demanded of spring water. (2 marks)

- (i) Calculate the price elasticity of demand for spring water. Is the demand for spring water elastic or inelastic?  
(4 marks)
- (ii) Would the demand for Coke be more elastic or less elastic than the demand for spring water? Why?  
(3 marks)
- (b) The price elasticity of demand for Jane's potato chips is 1.5. Jane wants to increase her total revenue. Would you recommend that Jane raise or lower her price of potato chips? Explain your answer.  
(4 marks)
- (c) The table below shows the price and quantity demanded for grapes at various prices.

Price /kg	Quantity demanded in kg.
12.50	3000
11.50	4400
10.50	6800

- (i) Calculate the price elasticity of demand for grapes when price increases from \$11.50 per kg to \$12.50 per kg by using mid-point method. Interpret your answer.  
(2.5 marks)
- (ii) Calculate the cross price elasticity for grape if a 20% of decrease in price of apple causes the demand for grape juice to decrease from 5000kg to 3000kg. Interpret your answer.  
(2.5 marks)

**Question 4**

- (a) (i) Differentiate between the terms 'short run' and 'long run' in the production of a firm.  
(2 marks)
- (ii) What is marginal product and why does it diminish as the number of workers increase?  
(2 marks)

(b) Consider the following production function for a car manufacturer, "Greasy Wrench".

<b>Number of workers</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Output</b>	0	10	25	40	50	59	61	62	62	62	60
<b>Marginal Product</b>											

- (i) Fill in the missing values for the marginal product.  
(5 marks)
- (ii) When law of diminishing marginal product set in?  
(1 marks)

(c) "Greasy Wrench" faces the following cost schedule:

Quantity (Q)	Fixed Cost (FC) RM	Variable Cost (VC) RM	Total Cost (TC) RM	Average Variable Cost (AVC) RM	Average Fixed Cost (AFC) RM	Average Cost (AC) RM
0			46			
1			76			
2			96			
3			104			
4			110			
5			116			
6			126			
7			140			
8			164			
9			198			

Complete the table above.

(10 marks)

~ The End ~

ECO1207(F)/April 2017/Khor Kok Chin

