



INTI

INTERNATIONAL COLLEGE PENANG (507292-U)
LAUREATE INTERNATIONAL UNIVERSITIES

FINAL
Examination Paper

(COVER PAGE)

INTI LIBRARY
INTI INTERNATIONAL COLLEGE PENANG

Session : August 2012

Programme : Foundation in Business Information Technology Programme

Course : ECO1207 : Microeconomics

Date of Examination : 10 December 2012

Time : 2p.m. – 4p.m. Reading Time : Nil

Duration : 2 Hours

Special Instructions :

SECTION A consists of **TWENTY (20)** multiple-choice questions.

SECTION B consists of **FOUR (4)** questions. Answer any **THREE (3)** questions in the answer booklet. All questions carry equal marks.

Materials permitted : Nil

Materials provided : OMR Sheets

Examiner(s) : Sara Seah

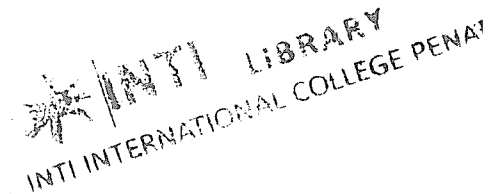
Moderator : Sheila Rose

This paper consists of 8 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG
FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)
ECO1207: MICROECONOMICS
FINAL EXAMINATION : AUGUST 2012 SESSION

Section A

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



- 1) Which of the following best describes the study of economics?
 - (A) How to use the family's limited income.
 - (B) How to make as much as money as possible in the share market.
 - (C) How scarce resources are used to produce various goods allocated among individuals in societies.
 - (D) Why resources are as scarce as they are.
 - (E) Why resources are scarce in one country compared to others.

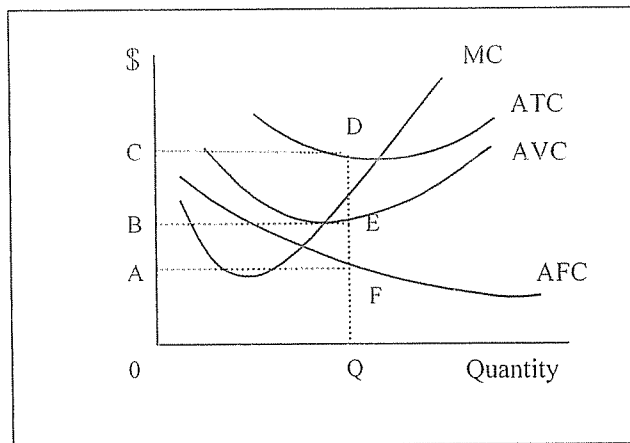
- 2) Which of the following is an example of a positive statement?
 - (A) The government should not redistribute income.
 - (B) The rich people should help the poor.
 - (C) As the price of houses decreases, the quantity demanded will increase.
 - (D) Households should save more.
 - (E) The government ought to reduce tax rates.

- 3) What does the price elasticity of demand for a product measure?
 - (A) How much price changes, given a change in demand.
 - (B) The slope of the demand curve for that product.
 - (C) Changes in demand.
 - (D) How responsive consumers are to a price change.
 - (E) How responsive producers are to a price change.

- 4) If the price of a product increases by 10 percent and the quantity demanded decrease by 15 percent, then
 - (A) the product has an inelastic demand.
 - (B) the producer should raise the price further.
 - (C) the product has an elastic demand.
 - (D) total consumption expenditures will be unaffected.
 - (E) the product has a unit-elastic demand.

- 5) Assume that the price elasticity of demand, $e_d = 0.2$. Given a 10 percent increase in price, there will occur a
- (A) 20 percent increase in the quantity demanded.
 - (B) 2 percent decrease in the quantity demanded.
 - (C) 20 percent decrease in the quantity demanded.
 - (D) 0.2 percent decrease in the quantity demanded.
 - (E) 2 percent increase in the quantity demanded.

Questions 6 to 8 refer to the figure below.



- 6) In the figure above, at output level $0Q$, total variable cost is
- (A) $0BEQ$
 - (B) $BCDE$
 - (C) $0CDQ$
 - (D) $0AFQ$
 - (E) $ABEF$
- 7) In the figure above, at output level $0Q$, total fixed cost is
- (A) $0BEQ$
 - (B) $BCDE$
 - (C) $0BEQ - 0AFQ$
 - (D) $0CDQ$
 - (E) $0CDQ - 0AFQ$
- 8) In the figure above, at output level $0Q$, average fixed cost
- (A) is equal to EF
 - (B) is equal to QE
 - (C) is measured by both QF and ED
 - (D) is measured by both EF and ED .
 - (E) cannot be determined.
- 9) If marginal cost is at its minimum,
- (A) total cost is at its maximum.
 - (B) total physical product is at its maximum.

- (C) average physical product is at its maximum.
(D) marginal physical product is at its maximum.
(E) average physical product is zero.
- 10) If the total cost of producing 6 units is \$48 and the marginal cost of the seventh unit is \$15, then
- (A) the average total cost of 7 units is \$9.
(B) the average variable cost of 7 units is \$9.
(C) the average fixed cost of 7 units is \$9
(D) fixed costs are \$8.
(E) fixed costs are \$33.
- 11) Which of the following is correct?
- (A) Accounting profit + economic profit = normal profit
(B) Accounting profit = economic profit – implicit costs
(C) Economic profit – accounting profit = explicit costs
(D) Economic profit = accounting profit – implicit costs
(E) Economic profit – implicit costs = accounting profit
- 12) The circular flow of income model shows that
- (A) consumers supply resources and demand products.
(B) producers demand products and supply resources.
(C) payments for resources and payments for goods and services flow in the same direction.
(D) businesses are only buyers and households are only suppliers.
(E) revenue flows to households when they buy goods and services..
- 13) A product market is in equilibrium
- (A) when there is no surplus of the product.
(B) when there is no shortage of the product.
(C) when consumers want to buy more of the product than the quantity offered.
(D) when producers want to sell more of the product than the quantity demanded.
(E) when the demand and supply intersect.
- 14) Which of the following statements best describes how a business determines whether to increase or decrease the price of the product it sells in order to increase revenues?
- (A) If the price elasticity of demand is greater than 1, total revenue and price changes move in opposite directions.
(B) If the price elasticity of demand is greater than 1, total revenue and price changes move in the same direction.

- (C) If the price elasticity of demand is less than 1, total revenue and price changes move in opposite directions.
- (D) The price elasticity of demand has little to do with total revenue and a firm must focus solely on its cost structure to increase revenues.
- (E) It will depend on how many firms are competing in the market.
- 15) A horizontal demand curve is
- (A) unit-elastic. (D) relatively elastic.
 (B) relatively inelastic. (E) perfectly elastic.
 (C) perfectly inelastic.
- 16) The income elasticity of demand for an inferior good is
- (A) positive (D) infinite
 (B) negative (E) 1
 (C) zero
- 17) Which of the following goods are likely to have a positive cross-price elasticity?
- (A) Butter and margarine (D) Coffee and sugar
 (B) Tires and cars (E) All of the above
 (C) Bread and butter
- 18) To maximize utility a consumer should allocate income so that the
- (A) elasticity of demand on all products purchased is the same.
 (B) marginal utility obtained from the last dollar spent on each product is the same.
 (C) marginal utility of the last unit of each product consumed is the same.
 (D) total utility derived from each product consumed is the same.
 (E) the purchase of good A gives the same satisfaction as the last purchase of good B.
- 19) Let there be two goods, X and Y. For Alex, the marginal utility of X is 2 while the marginal utility of Y is 1. If the prices of both X and Y were both equal to \$10, then Alex could improve his welfare even without receiving extra income by consuming
- (A) more X even if he has to consume less Y.
 (B) more Y even if he has to consume less X.
 (C) more X only if consumption of Y remains the same.
 (D) less X only if consumption of Y remains the same.
 (E) more Y only if consumption of X remains the same.

20) Which of the following is a characteristic of pure monopoly?

- (A) Close substitute products
- (B) Barriers to entry
- (C) The absence of market power
- (D) "Price taking"
- (E) Horizontal demand curve

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

- (a) Explain four factors of production in an economy and provide an example for each factor. (12 marks)
- (b) Outline TWO strengths and TWO weaknesses of a pure command economy. (8 marks)

Question 2

The table below shows the production possibility curve (PPC) for product X and product Y.

Point on PPC	Product X	Product Y
A	0	200
B	1	180
C	2	150
D	3	110
E	4	60
F	5	0

- (a) List the four assumptions underlying the production possibility curve. (4 marks)
- (b) Define 'opportunity cost'. (2 marks)
- (c) What is the opportunity cost of producing the first unit of product X? (2 marks)
- (d) What happens to the opportunity cost of X as the country produces more X? Explain your answer. (5 marks)
- (e) Assume the economy is currently producing at point C. What is the opportunity cost of producing one extra Y? (2 marks)
- (f) Identify and explain any TWO possible events that may shift the PPC outward. (5 marks)

Question 3

For each of the following, illustrate your answer with a graph and provide a brief explanation.

- (a) The effects on the equilibrium price and quantity of blue jeans (normal goods) if government decides to reduce income tax. (5 marks)
- (b) The effects on the equilibrium price and quantity of gas stoves if the price of gas doubles. (5 marks)
- (c) The effects on the equilibrium price and quantity of milk powder if higher price of beef causes more dairy cows to be slaughtered. (5 marks)
- (d) The effect on the equilibrium price and quantity of bread if there is a new machinery used in producing better quality bread. (5 marks)

Question 4

- (a) Outline any FOUR characteristics of perfect competitive market. (8 marks)
- (b) Below is the cost information for a firm operating in a perfect competitive market.

Quantity	TC (\$)	ATC (\$)	MC (\$)
0	10		
1	11		
2	14		
3	18		
4	25		
5	33		

- (i) Find the value of fixed cost. (2 marks)
- (ii) Calculate the values for average total cost (ATC) and marginal cost (MC) at each level of output. (3 marks)
- (ii) At a fixed price of \$8 per unit, find the profit-maximizing level of output and the total profit. Show all workings. (7 marks)

--THE END--