



**FINAL**  
Examination Paper  
(COVER PAGE)

Session : August 2015

Programme : Foundation In Business Information Technology (CFPI)

Course : ECO1207: Microeconomics

Date of Examination : 9<sup>th</sup> December 2015 (Wednesday)

Time : 8:00 am – 10:00 am

Duration : 2 Hours Reading Time : Nil

Special Instructions :

**SECTION A:** This section consists of **TWENTY (20)** questions. Answer **ALL** questions in the OMR sheet provided. **SECTION B:** This section consists of **FOUR (4)** questions. Answer any **THREE (3)** out of the **FOUR (4)** questions. Each question carries 20 marks.

**IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL**

Materials Permitted : Non-programmable calculator

Materials Provided : OMR Sheets, Answer Booklet

Examiner(s) : Mr. Yee Aik Phoay

Moderator : Ms. Sara Seah

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

INTI INTERNATIONAL COLLEGE PENANG

FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFP)

ECO 1207: MICROECONOMICS

RESIT EXAMINATION: AUGUST 2015 SESSION

**Section A (40 marks)**

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

1. Scarcity will be solved when
  - A. resources increase in the country.
  - B. the country grows richer.
  - C. population becomes lesser in the country.
  - D. technology improves.
  - E. None of the above. Scarcity cannot be solved.
  
2. A country's production possibilities curve will shift inwards when
  - A. technology in the country improves.
  - B. the people in the country choose to produce less.
  - C. businesses fail.
  - D. a war occurs.
  - E. Answers B, C and D are correct.
  
3. What will happen to the demand curve for cars when the price of cars drop?
  - A. The curve shifts to the right.
  - B. The curve shifts to the left.
  - C. There will be a downward movement along the demand curve for cars.
  - D. There will be an upward movement along the demand curve for cars.
  - E. The curve becomes vertical.
  
4. Which of the following statements is **TRUE**?
  - A. Shortage pushes the price to fall.
  - B. If price is currently higher than equilibrium, the market experiences a surplus.
  - C. Lower income will reduce the demand for inferior good.
  - D. Demand curve of education is upward sloping.
  - E. The demand curve of Coke will shift leftwards when price of Pepsi rises.

5. The price elasticity of demand for product Z =  $-0.75$ . This shows that the demand for product Z is
- A. perfectly elastic.
  - B. elastic.
  - C. unit elastic.
  - D. inelastic.
  - E. perfectly inelastic.
6. Which of the following pairs of product might have negative cross price elasticity of demand?
- A. Coffee and I-phones
  - B. Coffee from STARBUCKS and coffee from Coffee Bean
  - C. Coffee and tea
  - D. Coffee and sugar
  - E. None of the above.
7. The government has recently imposed a RM0.50 per unit tax on the production of ice-creams. A greater portion of the tax will be transferred to consumers when
- A. the market demand is relatively elastic.
  - B. the market demand is relatively inelastic.
  - C. the market demand is unit elastic.
  - D. the market demand is perfectly elastic.
  - E. the market supply is perfectly inelastic.
8. Which of the following does not shift the supply curve of tomatoes to the right?
- A. tomatoes are found to be good for health
  - B. improvement in farming technology
  - C. subsidies by the government
  - D. lower fertilizer costs
  - E. more tomato farms are set up
9. Economic profit equals to
- A. Total revenue – explicit costs – implicit costs
  - B. Total revenue – accounting fixed costs – economics variable costs
  - C. Total revenue – explicit costs
  - D. (Price per unit – total costs) x output level
  - E. (Price per unit – average variable costs) x output level

10. When output level decreases, total fixed costs will
- rise.
  - fall.
  - remain constant.
  - fall and then rise.
  - rise and then fall.
11. If a firm were to experience lower cost per unit in the long run, the firm is experiencing
- constant marginal returns.
  - decreasing marginal returns.
  - increasing marginal returns.
  - diseconomies of scale.
  - economies of scale.
12. The following table illustrates some of firm A's production costs.

Output level	Total fixed cost	Average variable cost
9	\$2,000	
10		\$200
11		

Based on the information given, what is firm A's total cost when the firm produces 10 units of output?

- \$2,670
  - \$4,000
  - \$4,600
  - \$5,200
  - Insufficient information provided. Total cost cannot be found.
13. As a firm employs more workers in the short run, the workers may end up sharing the use of equipment within the firm. This will cause
- the marginal product of labor to remain constant.
  - the marginal product of labor to increase.
  - the marginal product of labor to decrease.
  - the total fixed cost to decrease.
  - the total fixed cost to rise.

14. A perfectly competitive firm is sometimes known as
- A. a strong competitor; it will always reduce price to make other firms exit.
  - B. an explicit firm.
  - C. an implicit firm.
  - D. a price taker.
  - E. a price setter.
15. If firm A, a perfectly competitive firm were to produce one more unit of output, its marginal revenue would be \$3 and its marginal cost would be \$2.25. Based on the information given, we would advise firm A to
- A. maintain production.
  - B. maintain price.
  - C. increase price.
  - D. increase production.
  - E. exit the market.
16. In the long run equilibrium, a perfectly competitive firm
- A. produces at the level of output where marginal cost is minimum.
  - B. faces a less elastic demand curve.
  - C. earns positive economic profits.
  - D. earns normal profits.
  - E. turns into a price setter.
17. A monopoly firm faces a demand curve that is
- A. downward sloping.
  - B. upward sloping.
  - C. vertical.
  - D. horizontal.
  - E. None of the above.
18. When a monopoly firm charges \$5 per unit for the product that it sells, the quantity demanded by the consumers is 200 units. When the monopoly firm lowers the price to \$4 per unit, the quantity demanded rises to 201 units. The firm's marginal revenue equals to
- A. \$4
  - B. \$804
  - C. \$1,000
  - D. -\$200
  - E. -\$196

19. Which of the following is **NOT** an example of barriers to entry?

- A. Economies of scale.
- B. Decreasing marginal returns.
- C. Patents.
- D. Control over important resource.
- E. License by the government.

20. The product sold by a monopoly firm

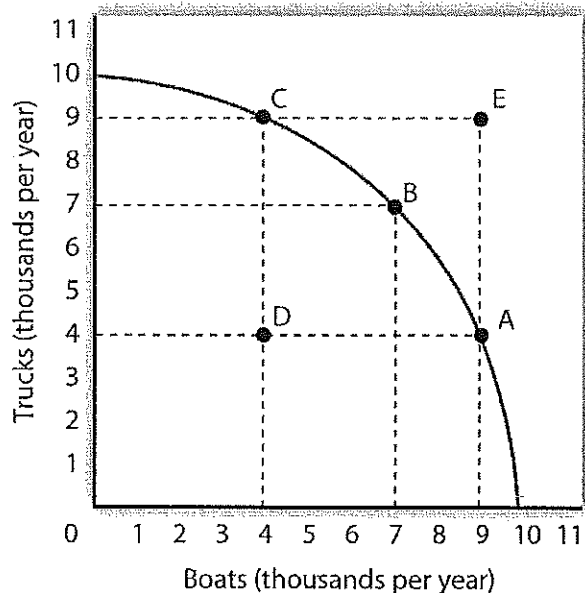
- A. has a relatively inelastic income elasticity.
- B. has a relatively inelastic supply.
- C. has a relatively inelastic demand.
- D. has lots of substitutes.
- E. is always a luxurious goods.

**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)



With the aid of the production possibilities curve illustrated above, explain the following economics concepts:

- (i) Scarcity (4 marks)
  - (ii) Efficient and inefficient choices (4 marks)
  - (iii) Opportunity costs (4 marks)
- (b) Should the country produce at point A or point B? Explain how this decision is made when the country chooses to be a free market economy. (4 marks)
- (c) With reference to part (b), will the decision be made in the same way if the country chooses to be a mixed economy? Explain. (4 marks)

**Question 2**

The following information illustrates the demand for petrol in Malaysia in two different time periods.

[Note: the data are hypothetical data.]

Price of petrol	Period A: 2 months after price increase  Demand for petrol (litres per month)	Period B: 1 year after price increase  Demand for petrol (litres per month)
RM2.00/litre	1,000,000	1,000,000
RM2.50/litre	900,000	700,000

- (a) Using the mid-point formula, calculate the price elasticity of demand for petrol in the two different time periods as price of petrol rises from RM2.00 per litre to RM2.50 per litre. (6 marks)
- (b) Which period has a more elastic demand? Provide **ONE (1)** reason why price elasticity of demand for petrol is different in both periods. (4 marks)
- (c) Besides time period, there are many other factors that affect the price elasticity of demand for a particular product. Using examples, explain **THREE (3)** other determinants of price elasticity of demand. (10 marks)

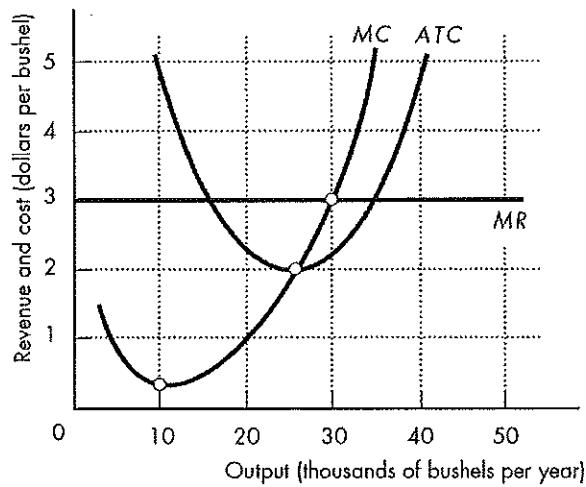
**Question 3**

A firm has fixed costs of \$60, and part of the variable costs data as shown in the table below.

Total Product	Total Fixed Cost TFC (\$)	Total Variable Cost TVC (\$)	Total Cost TC (\$)	Average Total Cost ATC (\$)
0		0		-
1		45		
2			145	
3		120		
4		150		
5		185		

- (a) Recopy the table into your answer booklet and complete the table. (8 marks)
- (b) Imagine a firm producing cheese cakes for sale. The total cost of this firm may consist of both explicit and implicit costs. Explain what this statement means with the aid of examples. (12 marks)

## Question 4



The diagram above illustrates the costs and revenue of a perfectly competitive wheat farmer.

- (a) State the farmer's profit maximizing price and output. (3 marks)
- (b) Is the farmer earning profits? Briefly explain. (2 marks)
- (c) How is a perfectly competitive wheat farmer different from a monopoly firm? Explain any **THREE (3)** differences. (6 marks)
- (d) Draw a diagram that shows the shutdown situation for a perfectly competitive firm. [Note: No explanations needed.] (4 marks)
- (e) With reference to your diagram in part (d), why is shutting down a better option? (5 marks)

