

INTI

INTERNATIONAL COLLEGE PENANG (507232-U)

LAUREATE INTERNATIONAL UNIVERSITIES

FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2016

Programme : FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY

Course : ECO1207: MICROECONOMICS

Date of Examination : 7 December 2016 (Wednesday)

Time : 8:00am - 10:00am 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 :

Nil

Materials provided :

Nil

Examiner(s) : Yee Aik Phoay

Moderator : Dr. Goh Soo Khoon

This paper consists of 11 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG

FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY PROGRAMME (CFPI)

ECO 1207: MICROECONOMICS

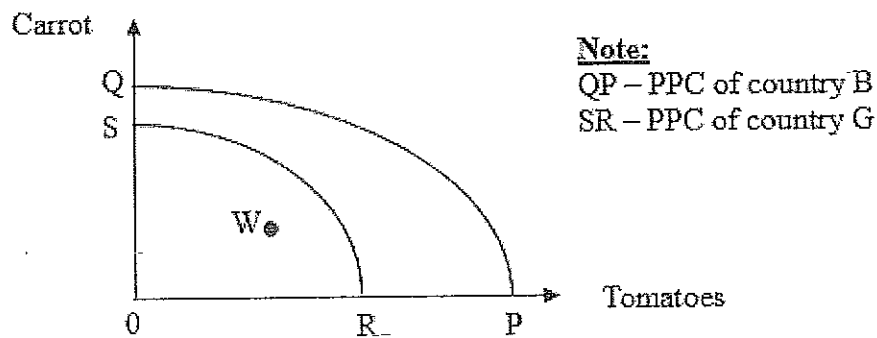
FINAL EXAMINATION: APRIL 2016 SESSION

Section A (40 marks)

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

- 1) Statement one
“INTI has decided to offer a new program”
- Statement two
“Malaysian consumers switched to consume more fish as price of chicken increases”
- (A) Statement one is macroeconomics and statement two is microeconomics.
(B) Statement one and two are both microeconomics.
(C) Statement one is microeconomics and statement two is macroeconomics.
(D) Statement one and two are both macroeconomics.
(E) None of the above.
- 2) Due to limited resources, every country
- (A) faces surplus.
(B) needs to decide when and where to produce.
(C) must prevent opportunity costs from happening.
(D) must sacrifice present consumption to enjoy greater growth in future.
(E) has to switch to command economic system for better planning.
- 3) The decision to provide Ipads for customers to order food in restaurants is a decision related to
- (A) what to produce.
(B) how to produce.
(C) for whom to produce.
(D) when to produce.
(E) why we should produce.

4)



With reference to the production possibilities curves (PPC) of country B and G, which of the following statements is **CORRECT**?

- (A) Point W is unattainable to both countries.
- (B) Point W is an efficient production choice to both countries.
- (C) The area between SR and QP are attainable to country B only.
- (D) If tomato farming technology improves, PPC of country G will shift to QP.
- (E) The area above QP shows inefficient production combinations.

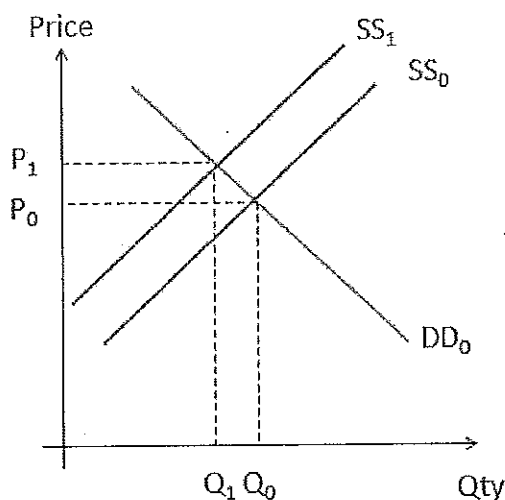
5) If the current price is lower than the market equilibrium,

- (A) quantity supplied is greater than quantity demanded.
- (B) the government must give subsidies.
- (C) there is a shortage in the market.
- (D) the demand curve shifts leftwards.
- (E) the supply curve shifts leftwards.

6) Higher income causes the demand for _____ to increase.

- (A) normal goods
- (B) inferior goods
- (C) substitutes
- (D) complements
- (E) broadly defined goods

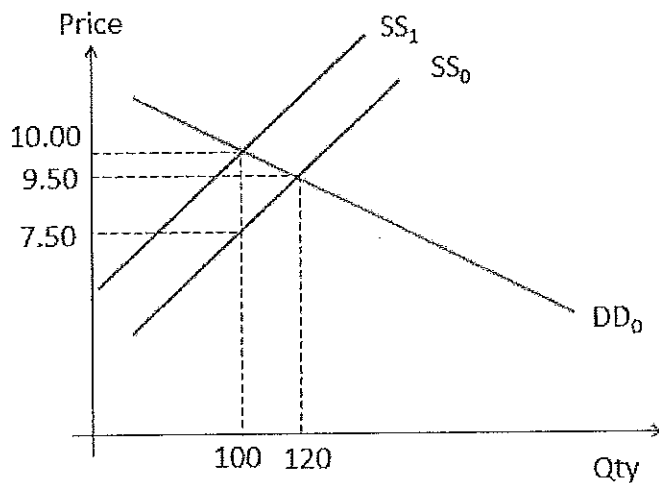
- 7) The diagram below shows the market for fresh fish.



The shift from SS_0 to SS_1 is likely to be caused by

- (A) higher subsidies for the fishermen.
- (B) a severe pollution in the sea.
- (C) higher fish prices.
- (D) lower demand for prawns.
- (E) fishermen's expectations of lower fish price in future.

- 8) The diagram below shows the market for apples.



Referring to the diagram, the **per-unit tax** that the government imposes is

- (A) \$10.00
- (B) \$9.50
- (C) \$2.50
- (D) \$2.00
- (E) \$0.50

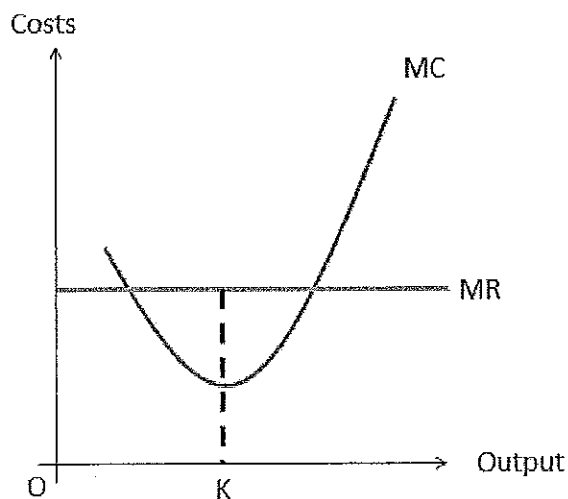
- 9) The cross price elasticity between the demand for data plan and the price of smartphones is
- (A) zero.
 - (B) positive.
 - (C) negative.
 - (D) infinite.
 - (E) None of the above.
- 10) The demand for product is likely to be inelastic when
- (A) the product takes up a bigger percentage of the consumers' income.
 - (B) more substitutes are available for the product.
 - (C) the product is a necessity.
 - (D) more time is given for adjustments.
 - (E) the product is a luxury.
- 11) The income elasticity of demand for product K is +5.4. If income were to decrease,
- (A) the demand curve for product K will shift to the left.
 - (B) the demand curve for product K will shift to the right.
 - (C) there will be an upward movement along the demand curve of product K.
 - (D) there will be a downward movement along the demand curve of product K.
 - (E) the supply curve has to shift first.
- 12) If demand curve is represented by a vertical line,
- (A) a 10% decrease in price does not have any impact at all on quantity demanded.
 - (B) a 10% decrease in price will cause the total revenue to increase.
 - (C) a 10% decrease in price will cause quantity demanded to increase by 10% too.
 - (D) the product is an inferior good.
 - (E) the product is a normal good.

Use the following diagram to answer Question 13 and 14.



- 13) Referring to the diagram, diminishing marginal product starts when the firm hires the _____ worker.
- (A) first
 (B) second
 (C) third
 (D) fourth
 (E) fifth
- 14) When four workers are employed, the total product is
- (A) 16 units.
 (B) 18 units.
 (C) 48 units.
 (D) 66 units.
 (E) 85 units.
- 15) An increase in the rental affects
- I. Total costs
 II. Total fixed costs
 III. Average fixed costs
 IV. Average total costs
- (A) I and II
 (B) III and IV
 (C) II and III
 (D) I, II, and III
 (E) I, II, III and IV

- 16) A firm's average total costs will fall in the long run when the firm experiences
- (A) increasing marginal returns
 - (B) economies of scale
 - (C) diseconomies of scale
 - (D) increasing marginal utility
 - (E) barriers to entry.
- 17) With reference to a perfectly competitive firm, which of the following statements is **CORRECT**?
- (A) The marginal revenue curve of the firm is U-shaped.
 - (B) The marginal revenue of the firm is equal to the market price.
 - (C) The marginal revenue value may be positive or negative.
 - (D) The marginal revenue cuts the firm's average revenue curve at the minimum point.
 - (E) The marginal revenue curve is downward sloping all the way.
- 18) Refer to the following diagram.



A perfectly competitive firm is currently producing OK units of output. For the firm to maximize profits, the firm has to

- (A) reduce price.
- (B) increase price.
- (C) maintain its production level.
- (D) increase its production level.
- (E) increase its production level and price.

- 19) Devi bought a shop lot in year 2012 and she rented the shop to James at RM1,500 per month. Currently she has decided to use the shop to start up her own business. In economics, the rental amount of RM1,500 per month
- (A) can be counted as Devi's total costs but not compulsory.
 - (B) should be counted as Devi's explicit costs.
 - (C) should be counted as Devi's implicit costs.
 - (D) should be counted as Devi's variable costs.
 - (E) will have no effect on Devi's profits.
- 20) In the short run,
- (A) all factors of production are fixed.
 - (B) the use of labor must remain fixed.
 - (C) a firm's plant size is fixed.
 - (D) no factors of production are fixed.
 - (E) only labor resources are variable.

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.

1. The following table illustrates the market quantity of two different products at various price levels.

Product A		Product B	
Price	Quantity supplied	Price	Quantity supplied
\$3.00	1,800	\$3.00	3,700
\$5.00	3,000	\$5.00	4,900

- (a) Assuming that price rises from \$3.00 to \$5.00 per unit, calculate the price elasticity of supply using the midpoint formula for both products. (6 marks)
- (b) Based on your calculation in part (a), state the product that has a more elastic supply. (2 marks)
- (c) Explain **THREE (3)** possible reasons that make the supply of a product more elastic. (6 marks)

- (d) If *the demand curves in both markets were to shift to the right by the same distance*, which market would experience a bigger change in market equilibrium price and which market would experience a bigger change in market equilibrium quantity?

Support answer by preparing two sets of market demand and supply curves; one for product A and one for product B. Explanations are not required for this question.

(6 marks)

2. Zaleha owns a firm in Johor which manufactures product J and the product is sold in a perfectly competitive market.

- (a) The following table illustrates the production costs of Zaleha's firm.

Q	TC (\$)	ATC	MC
0	10	-	-
1	30	30	
2			10
3	48	16	8
4	54	13.50	6
5	62		
6	77		
7	107		
8		18.75	
9	216		66

Fill up the missing blanks.

(6 marks)

- (b) i. Briefly explain the term fixed costs. (2 marks)
- ii. Using the information provided above, state Zaleha's fixed costs. (1 mark)
- (c) Why do Zaleha's marginal costs decrease and then increase as more output is produced in the short run? (5 marks)
- (d) If product J were sold at \$15 per unit, determine the following for Zaleha:
- the profit maximizing price
 - the profit maximizing output
 - total profit earned
- (6 marks)

3. (a) Using examples, explain any **FOUR (4)** barriers that exist in a monopoly market.

(10 marks)

- (b) Assume ASTRO Malaysia as a monopoly firm providing satellite TV service. With other factors remaining constant, will lower subscription charges help to improve the total revenue of the firm? Explain your answer with the aid of a downward sloping demand curve.

(10 marks)

4. (a) In recent months, news on the spread of Zika virus via mosquitoes has worried many Malaysians.

i. Explain the impact of the news on the market for mosquito netting in Malaysia.

(5 marks)

ii. Explain **TWO (2)** simultaneous events that will cause the equilibrium price to fall but the quantity remains unaffected in the mosquito netting market. Use a demand and supply diagram to illustrate your answer.

(7 marks)

- (b) Explain **FOUR (4)** possible sources of economies of scale in a mosquito netting production factory.

(8 marks)

~ **The End** ~

ECO1207(F)/August 2016