



**FINAL**  
Examination Paper  
(COVER PAGE)

Session : April 2016

Programme : Foundation in Business Information Technology (CFPI)

Course : ECO 1207: Microeconomics

Date of Examination : 26 July 2016, Tuesday

Time : 8.00am – 10.00am

Duration : 2 Hours Reading Time : Nil

Special Instructions :

**SECTION A:** Answer **ALL** questions.

**SECTION B:** Answer **THREE (3)** out of **FOUR (4)** questions.

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

Materials Permitted : Nil

Materials Provided : OMR Sheets & Answer Booklet

Examiner(s) : Mr. Yee Aik Phoay

Moderator : Dr. Goh Soo Khoon

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

## INTI INTERNATIONAL COLLEGE

## FOUNDATION IN BUSINESS INFORMATION TECHNOLOGY (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.

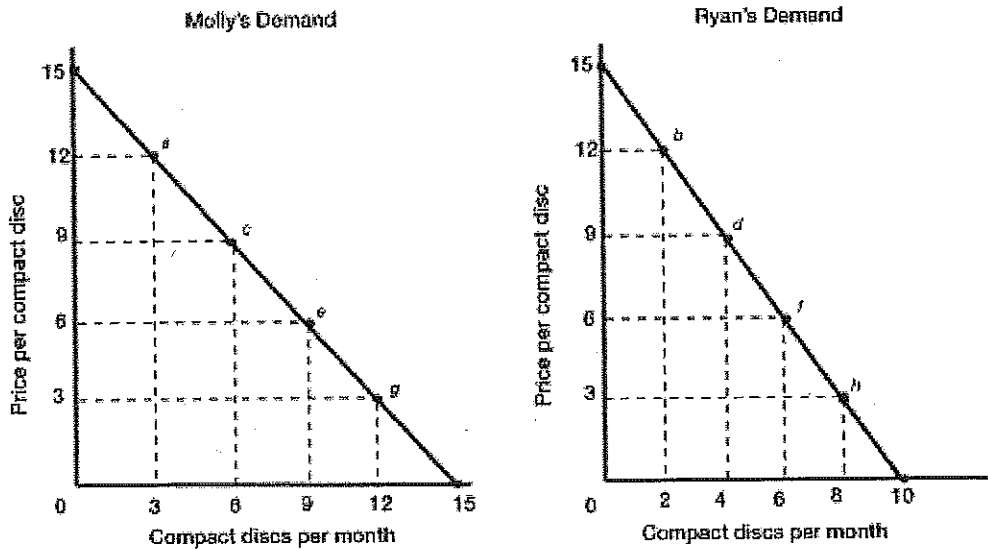
1. Producing more of good A will lead to a sacrifice of good B because
  - A. not all resources are efficient.
  - B. country has only limited amount of productive resources.
  - C. buyers are more than sellers.
  - D. the technology level is low.
  - E. human wants are limited.
  
2. Which of the following is NOT an economic decision made in a country?
  - A. Who consumes the products produced?
  - B. What will be produced?
  - C. When are products consumed?
  - D. How do we produce the products?
  - E. All the above are economic decisions made in a country.
  
3. The following table shows the production possibilities of a country.

Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

If the country chooses to move from possibility B to C,

- A. the country will sacrifice 200 bread.
- B. more resources are now available in the country.
- C. technology has improved for book production.
- D. the choice is inefficient.
- E. all resources are fully employed and the production is efficient.

4. Referring to the diagram below, which of the following statements is correct?



The market for compact discs is made up of 2 consumers, Molly and Ryan. At the price of \$6 per compact disc,

- A. there is a shortage of 15 compact discs.  
 B. there is a surplus of 15 compact discs.  
 C. the market equilibrium has been achieved.  
 D. the total quantity demanded is 15 compact discs.  
 E. the total quantity supplied is 15 compact discs.
5. If product A and B are substitutes for one another, decrease in price of product A will
- A. shift the demand curve for product B to the left.  
 B. shift the demand curve for product B to the right.  
 C. cause a point along the demand curve for product B to move downward.  
 D. cause a point along the demand curve for product B to move upward.  
 E. not affect the demand curve for product B.
6. Assume that hamburger is an inferior good. If the income of the consumers decreases, the
- A. market price and quantity of hamburger will rise.  
 B. market price and quantity of hamburger will fall.  
 C. market price of hamburger will rise but quantity falls.  
 D. market price of hamburger will fall but quantity rises.  
 E. market price of hamburger will fall but the effects on quantity cannot be determined.

7. A new fertilizer has been discovered in tomato farming. At the same time, more farmers are switching to tomato farming. Both events will cause
- A. market price and quantity of tomatoes to rise.
  - B. market price and quantity of tomatoes to fall.
  - C. market price of tomatoes to rise but quantity falls.
  - D. market price of tomatoes to fall but quantity rises.
  - E. market price of tomatoes to fall but the effects on quantity cannot be determined.
8. The price elasticity of demand for product A is  $-0.45$ . Based on this information, we can conclude that
- I. a higher price for product A will lower the producer's revenue.
  - II. a higher price for product A will increase the producer's revenue.
  - III. the demand for product A is price elastic.
  - IV. the demand for product A is price inelastic.
  - V. the demand for product A is unit price elastic.
- A. statement I and III are true.
  - B. statement I and IV are true.
  - C. statement II and III are true
  - D. statement II and IV are true.
  - E. statement V is true.
9. The demand for Toyota cars is likely to be
- A. less elastic than the demand for cars.
  - B. more elastic than the demand for cars.
  - C. equally as elastic as the demand for cars.
  - D. perfectly elastic.
  - E. perfectly inelastic.
10. Comfort Sdn. Bhd. currently hires 5 workers. When the firm hires 6 workers, its total product fell. Which of the following statements is **TRUE**?
- A. The firm is operating in the long run.
  - B. The average product of the sixth worker is positive.
  - C. The marginal product of the sixth worker is positive.
  - D. The average product of the sixth worker is negative.
  - E. The total product of the firm is negative.

11. The following table illustrates the relationship between the quantity of workers employed and the number of cardboard boxes produced per day by Firm ABC. The capital goods used to produce the boxes is fixed.

Quantity of Workers	Quantity of Boxes	Marginal Product of Labor	Average Product of Labor
0	0	-	-
1	50		
2	200		
3	240		
4	264		
5	284		

Diminishing returns to labor are first seen in this example after Firm ABC hires the \_\_\_\_\_ worker.

- A. second  
 B. third  
 C. fourth  
 D. fifth  
 E. None of the above.
12. Long run average total cost curves are U-shaped because
- A. of economies of scale and diseconomies of scale.  
 B. of diminishing marginal returns.  
 C. of rising opportunity costs.  
 D. of law of supply.  
 E. machines depreciate over a period of time.
13.  $ATC =$  \_\_\_\_\_
- A.  $AVC \times AFC$   
 B.  $AFC \div AVC$   
 C.  $AFC - AVC$   
 D.  $AFC + AVC$   
 E.  $(AFC + AVC)^2$

14. Janet own a pizza outlet. Her total cost schedule is illustrated in the following table.

Output (pizzas per hour)	Total cost (dollars)
0	20
1	35
2	49
3	61
4	71
5	79
6	85

At 5 pizzas per hour, the total fixed cost of the outlet

- A. is \$79.  
 B. is \$8.  
 C. is \$59.  
 D. is \$20.  
 E. cannot be determined.
15. Refer to the schedule given in Question 14. At 5 pizzas per hour, the total variable cost of the outlet
- A. is \$79.  
 B. is \$8.  
 C. is \$59.  
 D. is \$20.  
 E. cannot be determined.
16. A firm in perfect competition is a price taker because
- A. it is very large.  
 B. its demand curves are downward sloping.  
 C. the marginal cost is horizontal.  
 D. consumers have monopoly power.  
 E. many other firms produce homogeneous products.
17. If the marginal revenue exceeds marginal cost, a perfectly competitive firm is advised to
- A. reduce production.  
 B. increase production.  
 C. maintain current production.  
 D. stop production.  
 E. raise prices.

18. A monopoly firm will earn normal profits if
- A. marginal revenue = marginal costs.
  - B. total fixed costs = total variable costs.
  - C. total revenue = total variable costs.
  - D. implicit revenue = implicit costs.
  - E. price per unit = average total costs.
19. A monopoly firm charges \$9 per unit initially to sell 9 units. For the monopoly firm to sell 10 units, the price is lowered to \$8 per unit. Which of the following statements is correct?
- A. the marginal revenue of the 10<sup>th</sup> unit is \$10
  - B. the marginal revenue of the 10<sup>th</sup> unit is \$9
  - C. the marginal revenue of the 10<sup>th</sup> unit is \$8
  - D. the marginal revenue of the 10<sup>th</sup> unit is negative
  - E. the marginal revenue of the 10<sup>th</sup> unit is more than the marginal revenue of the 9<sup>th</sup> unit
20. A monopoly firm faces a demand curve that is
- A. downward sloping.
  - B. upward sloping.
  - C. vertical.
  - D. horizontal.
  - E. None of the above.

**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**

The following table shows the total demand for wheat and total supply of wheat per month.

Thousands of tonnes demanded	Price per unit	Thousands of tonnes supplied
85	3.40	70
80	3.70	70
75	4.00	70
70	4.30	70
65	4.60	70
60	4.90	70

- (a) (i) Briefly explain the law of supply. (2 marks)
- (ii) State whether the above supply schedule obeys the law of supply. (2 marks)
- (b) (i) State the market equilibrium price and quantity in the wheat market. (2 marks)
- (ii) If supply were to increase by 5 thousand tonnes at every price level, what is the new market equilibrium price and quantity? State your answer. (2 marks)
- (iii) Explain any **THREE (3)** factors that may increase the wheat supply. (6 marks)
- (c) (i) Referring to the table above, describe the price elasticity of wheat supply. (2 marks)
- (ii) Will longer time make the supply more elastic? If yes, why? If no, why not? (4 marks)

**Question 2**

The following information illustrates the price of white bread and the buying decision of two consumers for wholemeal bread.

Price of white bread (RM per loaf)	Quantity of wholemeal bread demanded by James (loaves per month)	Quantity of wholemeal bread demanded by Susan (loaves per month)
RM4.00	5	2
RM6.00	8	4

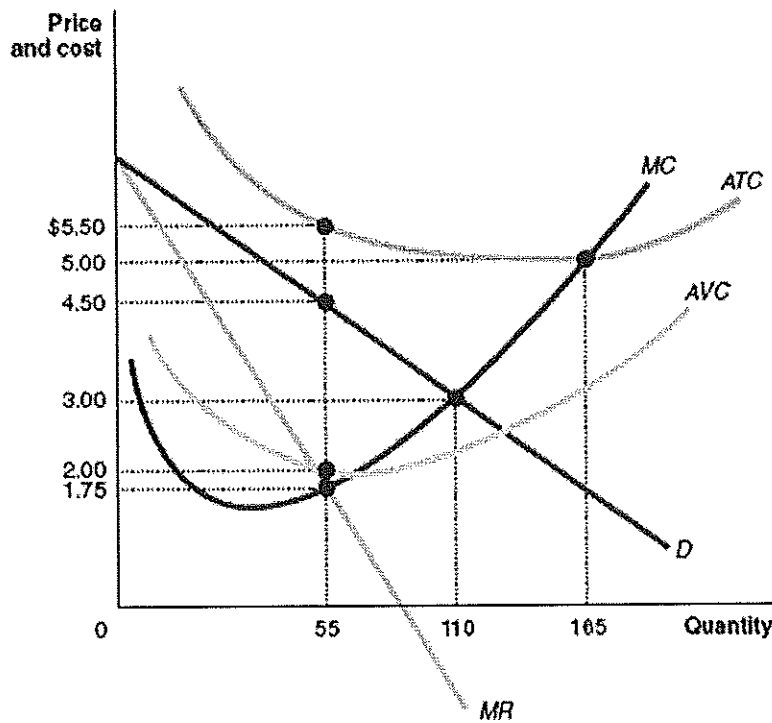
- (a) Who has a higher cross price elasticity of demand for wholemeal bread; James or Susan? Support your answers by showing suitable calculations using the mid-point formula. (7 marks)
- (b) Referring to part (a), why is cross price elasticity of demand different for different consumers? (2 marks)
- (c) You are given the following additional information.

Cross price elasticity of demand for wholemeal bread with respect to price of product W	-2.5
Cross price elasticity of demand for wholemeal bread with respect to price of product K	0

- (i) Identify an example of product W and an example of product K. (4 marks)
- (ii) Calculate the percentage change in the demand for wholemeal bread if the price of product W decreases by 2%. (2 marks)
- (iii) Using demand and supply diagrams, explain what happened to the equilibrium price and quantity for wholemeal bread if the price of product W decreases by 2%. (5 marks)

**Question 3**

The following diagram shows the demand and costs curves faced by Jenny for selling fried rice in a small village. At this moment, Jenny is having losses.



- (a) Why is price and quantity demanded for fried rice negatively related? (4 marks)
- (b) State the price that Jenny will charge and the quantity that she will sell to minimize losses. (2 marks)
- (c) Calculate Jenny's losses. (4 marks)
- (d) Why is Jenny still in business although she is having losses? Explain your answer with reference to economics knowledge. (4 marks)
- (e) In your opinion, can her fried rice business be categorized as a monopoly firm? Briefly explain your answer with reference to barriers to entry and type of product sold. (7 marks)

**Question 4**

(a) Using any business of your choice; explain the following terms:

- Explicit costs
- Implicit costs
- Short run production time period
- Long run production time period

(10 marks)

(b) Phoenix is a company that manufactures football jerseys. What will happen to the firm's total costs and average total cost when more jerseys produced in the short run? Use relevant economics theories and diagrams to support your explanations.

(10 marks)

~ **The End** ~  
*ECO1207(F)/April 2016*

