

**INTI**  
**International College Subang**  
LAUREATE INTERNATIONAL UNIVERSITIES'

**FINAL**  
Examination Paper

(COVER PAGE)

Session	:	<u>April 2015</u>
Programme	:	<u>Diploma in Business (DIB) Diploma in Finance (DIF) Diploma in Entrepreneurship (DENT)</u>
Course	:	<u>ECO2103 : PRINCIPLES OF MICROECONOMICS</u>
Date of Examination	:	<u>August 6, 2015</u>
Time	:	<u>5:00pm – 7:00pm</u> Reading Time : <u>Nil</u>
Duration	:	<u>2 Hours</u>
Special Instructions	:	

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet

provided. All questions carry equal marks.

Materials permitted : Non-Programmable Calculator

Materials provided : Nil

Examiner(s) : Mr. Yee Aik Phoay, Diane Janet, Lee Weng Chang,  
Bernard Lim Jit Heng.

Moderator : Associate Professor Dr. Evelyn S. Devadason

*This paper consists of 6 printed pages, including the cover page*

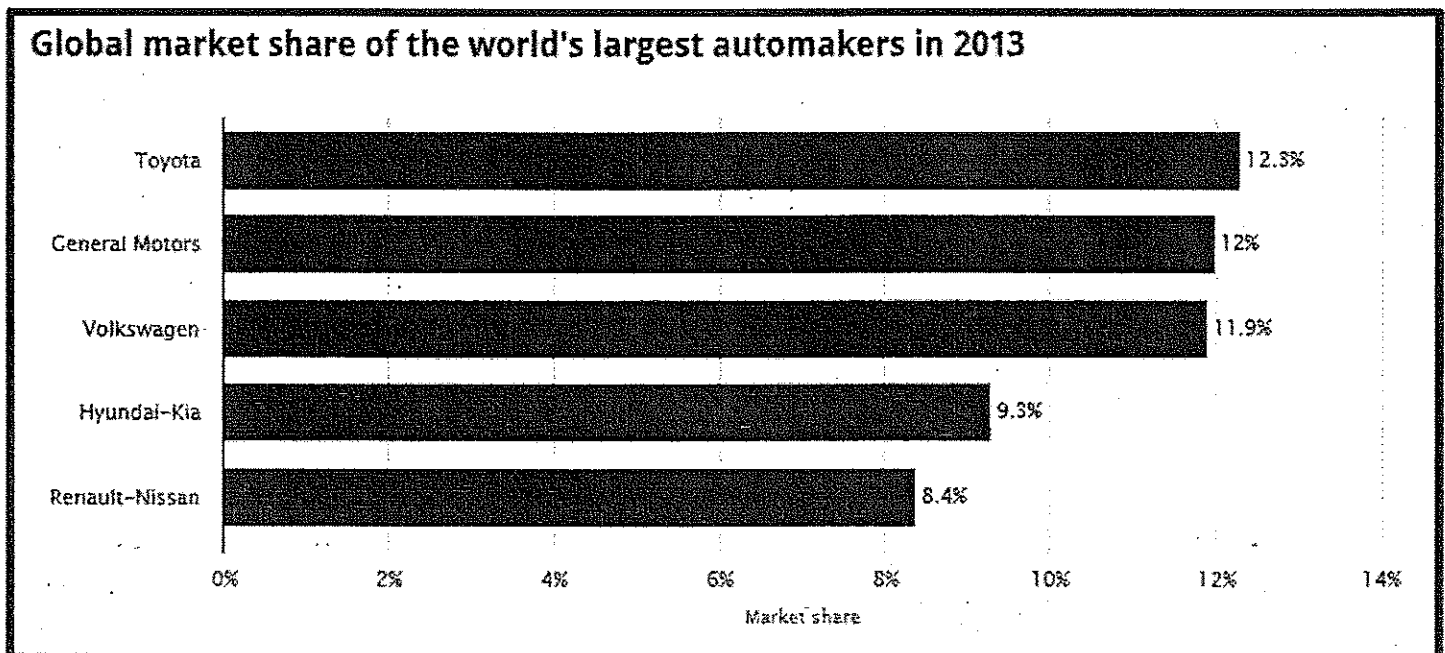


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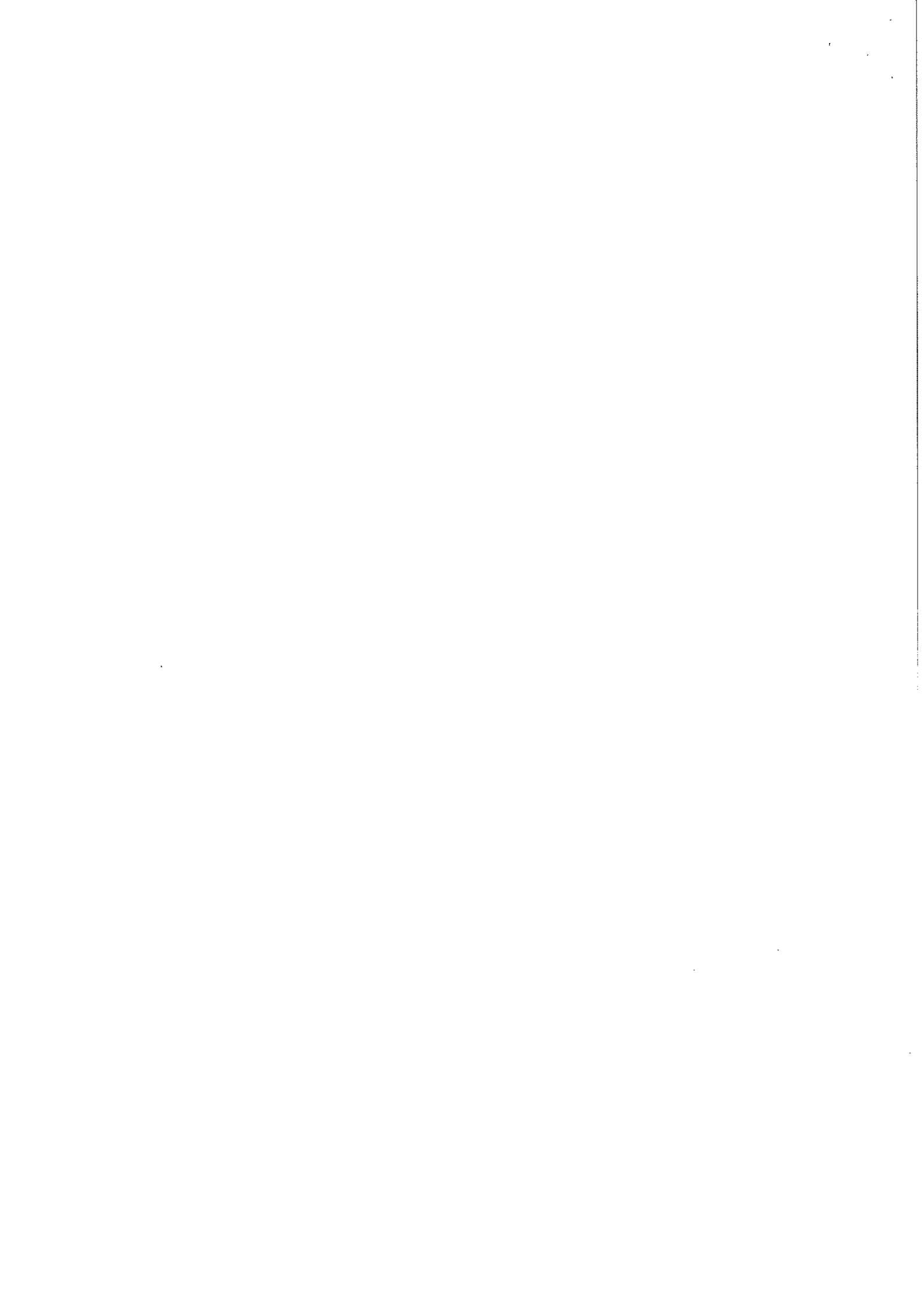
DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 ECO 2103: PRINCIPLES OF MICROECONOMICS  
 FINAL EXAMINATION: APRIL 2015 SESSION

**Instructions:** This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

### Question 1



- (a) The chart above shows the market share of a few major car producers in the world. Most economists would classify the market for cars as oligopoly market. With reference to the car market, explain any **FOUR (4)** characteristics of the oligopoly market. (10 marks)
- (b) Market failures occur in the car market.
- i) Using concepts of externalities, explain why there are too many new cars on the road. Support your answer with suitable diagrams. (10 marks)
  - ii) Briefly describe **TWO (2)** methods of reducing the number of new cars on the road. (5 marks)



**Question 2**

The following table shows the total product, marginal product and average product of a factory that produces potato chips as more workers are hired.

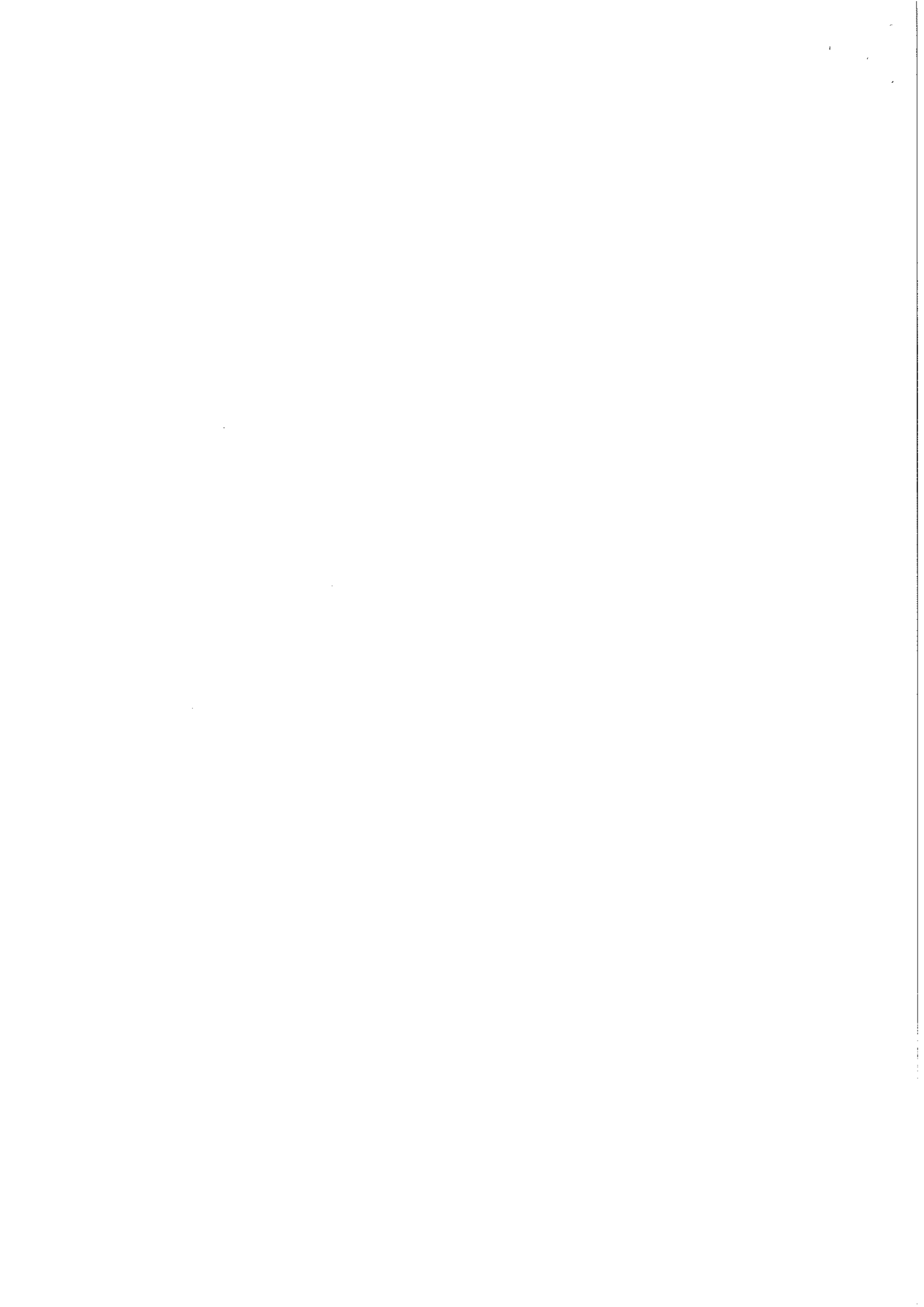
Number of workers	Total product (packets of potato chips in a month)	Average product of labour	Marginal product of labour
0	0	-	-
1	200		
2			300
3		300	
4	1150		
5	1300		
6	1100	183.33	- 200

- (a) Fill up the missing values in the above table. (10 marks)
- (b) Draw the average product of labor and marginal product of labor graphs. [Note: Please use graph paper for this question. You are required to label the axis and your graphs clearly.] (5 marks)
- (c) Using your knowledge of economics and the values in the table above, explain what happens to the marginal product of labor values as the factory employs more workers. (10 marks)

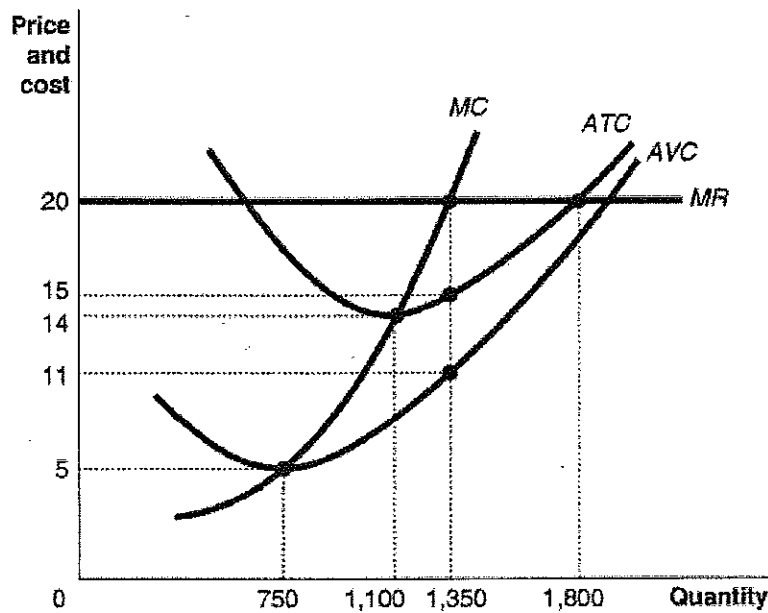
**Question 3**

Jessie has a rose farm that is classified as a perfectly competitive business. She rents a piece of land to grow the roses. Besides land, Jessie uses a variety of resources for the rose business. She uses fertilizers to make the roses grow faster and pesticides to stop insects from destroying the roses.

- (a) Identify the fixed cost from the information above and briefly explain **TWO (2)** characteristics of fixed costs. (5 marks)
- (b) Identify the variable cost from the information above and briefly explain **TWO (2)** characteristics of variable costs. (5 marks)



- (c) The following diagram illustrates the demand and costs curves faced by Jessie. All information is in dollars, \$.



- i) How many stalks of roses should Jessie produce in order to maximize profits? Briefly explain how you obtain your answer. (3 marks)
- ii) Calculate the total revenue, total costs and total profits earned by Jessie at the profit maximizing level of output. (5 marks)
- iii) Will Jessie shut down the farm if the price of roses falls to \$11 per stalk? Provide some calculations to support your explanations. (7 marks)

#### Question 4

Apartments in Malaysia are considered as normal goods. They are also private goods.

- (a) Compare the characteristics of private goods and public goods. Use examples to support your answer. (10 marks)
- (b) Given that apartments are normal goods, explain what happens to the market for apartments when Malaysia goes into recession. Illustrate your answer with the aid of demand and supply diagrams. (10 marks)
- (c) The income elasticity of demand for apartments in Sarawak is +1 while the income elasticity of demand for apartments in Pahang is +0.2. What do the two values tell us? (5 marks)



## Question 5

The following table shows the total utility that Alex gets from consuming Chicken Burgers from KFC and McDonalds.

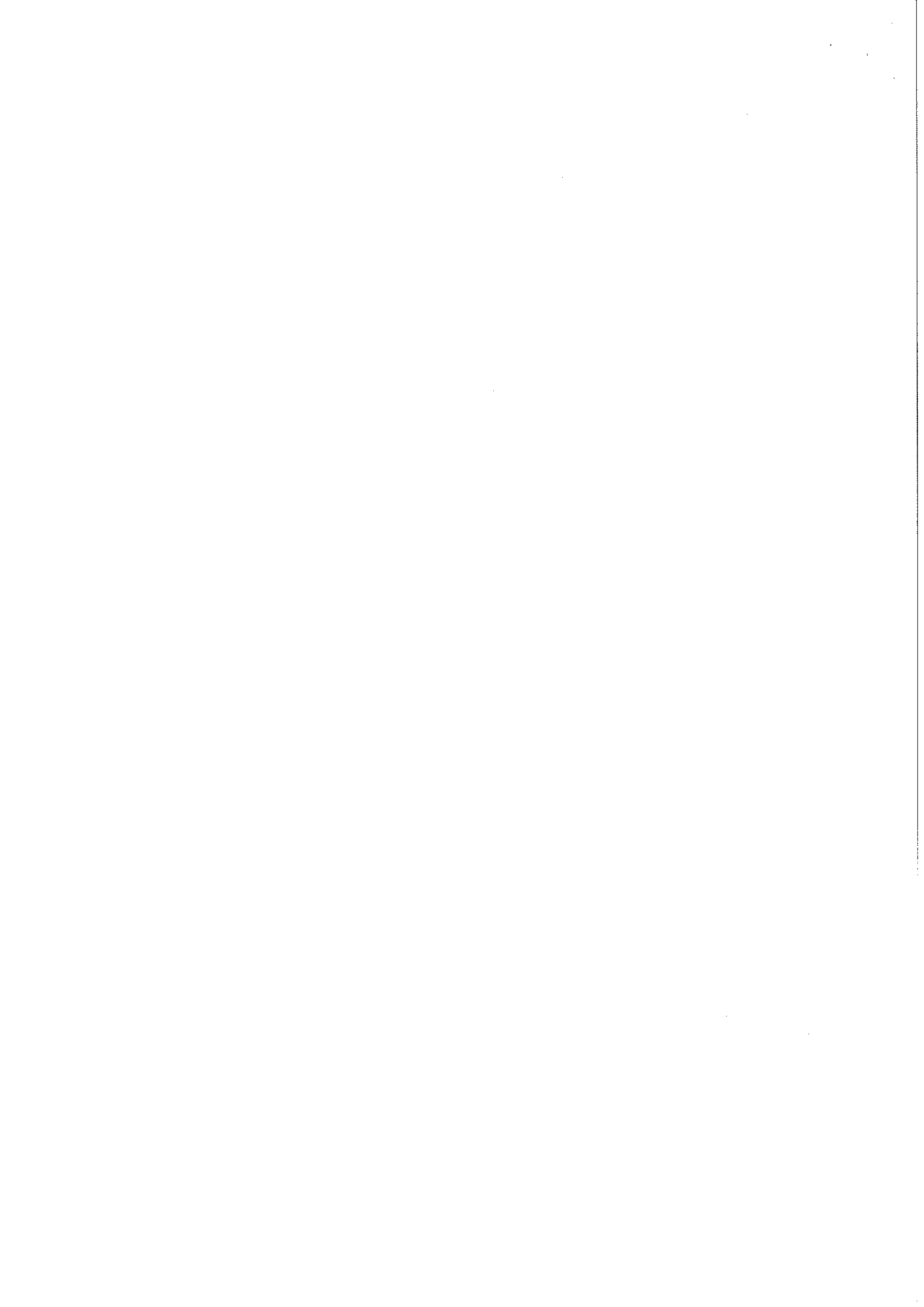
Quantity of KFC chicken burgers consumed	Total utility	Marginal utility (MU)	$\frac{MU}{P}$	Quantity of McD chicken burgers consumed	Total utility	Marginal utility	$\frac{MU}{P}$
1	100			1	60		
2	150			2	120		
3	190			3	160		
4	220			4	170		
5	240			5	175		

- (a) If price of KFC chicken burger equals to \$5.00 per burger while the price of McDonalds chicken burger equals to \$4 per burger, fill up all the missing values in the above table. (10 marks)
- (b) Assuming that Alex is currently consuming 1 KFC burger and 5 McDonalds burger, explain how Alex adjusts his consumption to maximize his satisfaction. Explain your answer with reference to equi-marginal principle. (7 marks)
- (c) Explain any **TWO (2)** characteristics of indifference curves. (8 marks)

## Question 6

Andrew Smith owns a pay-to-view TV station in Country Z. Currently Andrew is the only entrepreneur given the license to run this business. As the monopoly firm offering the pay-to-view TV services, the demand for these services is relatively price inelastic.

- (a) Explain **TWO (2)** possible factors that cause the demand for the TV services to be relatively price inelastic. (5 marks)
- (b) If Andrew were to increase the monthly fees for the pay-to-view TV from \$50 to \$57.50, the quantity demanded for these services is predicted to drop from 150,000 subscriptions to 138,000. Using the mid-point formula, determine the price elasticity of demand. (5 marks)



- (c) Explain **FOUR (4)** types of barriers that may exist in a monopoly market. (10 marks)
- (d) Some economists view Andrew's firm as productively inefficient. Briefly explain this statement. (5 marks)

~ The End ~  
*ECO2103(F)April2015*

