



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

**FINAL**  
Examination Paper  
(COVER PAGE)

Session : April 2014

Programme : Diploma in Business

Course : ECO2103 : PRINCIPLES OF MICROECONOMICS

Date of Examination : July 25, 2014

Time : 8:00am – 10:00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

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

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provided. All questions carry equal marks.

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Materials permitted : Non-Programmable Calculator

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Materials provided : Nil

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Examiner(s) : Ms. Grace Jelaja Gomez, Sara Seah Peng Teng,  
Komathi A/P Kalimuthu.

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Moderator : Associate Professor Dr. Evelyn S. Devadason

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*This paper consists of 5 printed pages, including the cover page*

## INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 ECO2103: PRINCIPLES OF MICROECONOMICS  
 FINAL EXAMINATION: APRIL 2014 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) Describe briefly the main features of a socialist economy and list **TWO (2)** of its advantages and disadvantages. (6 marks)
- (b) Describe the free market economy. How are goods and service produced under this economic system? (6 marks)
- (c) What is the difference between capital goods and consumer goods? (2 marks)
- (d) The following is a set of hypothetical production possibilities for consumer goods and capital goods.

| Combination | Consumer goods | Capital Goods | Opportunity Cost |
|-------------|----------------|---------------|------------------|
| A           | 35             | 0             |                  |
| B           | 32             | 1             |                  |
| C           | 28             | 2             |                  |
| D           | 23             | 3             |                  |
| E           | 17             | 4             |                  |
| F           | 10             | 5             |                  |

- (i) Fill in the opportunity cost (consumer goods forgone) of producing the first through the fifth capital goods produced. (3 marks)
- (ii) What does the above law explain? (2 marks)
- (iii) Sketch the above production possibility curve (PPC). Label point X as the inefficient point, point Y as the unattainable point and point Z as the efficient point. (3 marks)
- (iv) Suppose there is a major technological breakthrough in the production of capital goods, draw a new PPC to indicate the changes. What is the effect of this change on the economy? (3 marks)

## Question 2

- (a) Substitution and income effects explain the law of demand. Explain the two effects with examples. (7 marks)
- (b) Explain the difference between a change in demand and a change in quantity demanded. (6 marks)
- (c) Using supply-and-demand diagrams, show the effect of each of the following events on the market for *sweaters*. Identify and discuss the effect on equilibrium price and quantity.
- (i) A hurricane damages the cotton crop. (4 marks)
- (ii) The price of leather jackets falls. (4 marks)
- (iii) New knitting machines are invented. (4 marks)

## Question 3

- (a) Explain **FOUR (4)** determinants of price elasticity of demand that make the demand for some goods elastic and the demand for other goods inelastic. Provide each with an example. (12 marks)
- (b) The state housing minister wants to increase the number of privately owned low-rental housing units available by 7 percent.
- (i) If the elasticity of supply of this type of housing is 0.3, how much is the percentage increase in rent required? (3 marks)
- (ii) If the rent for the housing units is currently \$400 a month, what is the increase in rent required? Use mid-point method. (3 marks)
- (c) The product manager for Dumex milk is wondering whether or not to cut the price of the milk to increase the total revenue from the sales. Explain clearly how knowledge of the elasticity of demand for Dumex milk can help the manager to decide whether or not to cut the price. (7 marks)

## Question 4

(a) The table below shows the total output of a firm in the short run.

| Number of workers | Total Physical Product (units) | Average Physical Product (units) | Marginal Physical Product (units) |
|-------------------|--------------------------------|----------------------------------|-----------------------------------|
| 0                 | 0                              |                                  |                                   |
| 1                 | 2                              |                                  |                                   |
| 2                 | 5                              |                                  |                                   |
| 3                 | 7                              |                                  |                                   |
| 4                 | 8                              |                                  |                                   |
| 5                 | 8                              |                                  |                                   |

- (i) Calculate the average physical product and marginal physical product. (3 marks)
- (ii) Define the law of diminishing marginal returns. (2 marks)
- (iii) If the above firm expands its operations in the long run, explain if the expansion will reduce the per unit cost of production of the firm. Use a graph to explain your answer. (12 marks)

(b) The figures below show the total cost of a firm in the short run.

| Quantity (units) | Total cost (RM) | Average Total Cost (RM) | Marginal Cost (RM) |
|------------------|-----------------|-------------------------|--------------------|
| 0                | 60              |                         |                    |
| 1                | 63              |                         |                    |
| 2                | 68              |                         |                    |
| 3                | 79              |                         |                    |
| 4                | 92              |                         |                    |
| 5                | 113             |                         |                    |
| 6                | 152             |                         |                    |
| 7                | 197             |                         |                    |
| 8                | 257             |                         |                    |

- (i) Calculate the average total cost and marginal cost. (3 marks)
- (ii) Explain the relationship between average total cost and marginal cost. Support your answer with a relevant diagram. (5 marks)

**Question 5**

- (a) Explain the basic characteristics of a perfectly competitive market. (6 marks)
- (b) The data below relate to a monopoly firm and its product.

| Quantity (units) | Price (RM) | Total Revenue (RM) | Marginal Revenue (RM) | Total Cost (RM) | Marginal Cost (RM) |
|------------------|------------|--------------------|-----------------------|-----------------|--------------------|
| 1                | 20         |                    |                       | 24              |                    |
| 2                | 18         |                    |                       | 27              |                    |
| 3                | 15         |                    |                       | 32              |                    |
| 4                | 13         |                    |                       | 39              |                    |
| 5                | 11         |                    |                       | 49              |                    |
| 6                | 9          |                    |                       | 60              |                    |

- (i) Calculate the total revenue, marginal revenue and marginal cost. (4 marks)
- (ii) From the above data, determine the profit maximizing output and profit maximizing price of the monopoly firm. Briefly explain your answer. (5 marks)
- (iii) With the aid of a graph, explain why a monopoly firm is less desirable than a perfectly competitive firm. (10 marks)

**Question 6**

- (a) (i) Explain the term 'externalities'. (3 marks)
- (ii) The construction of houses in the city leads to noise and pollution. Name and explain this type of externality. Sketch the type of externality in the graph, clearly showing the type of externality. (7 marks)
- (iii) Using the graph from (ii), explain how taxes could be used to reduce this externality. (5 marks)
- (b) Explain the following terms:
- (i) diminishing marginal utility; (5 marks)
- (ii) consumer surplus. (5 marks)