

FINAL  
Examination Paper

(COVER PAGE)

Session : APRIL 2017

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : 04 August, 2017 (Friday)

Time : 11:00am – 1:00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

SECTION A: Answer ALL Multiple Choice questions.

SECTION B: Answer any TWO (2) questions.

SECTION C: Answer any ONE (1) question.

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

Material permitted : Non-Programmable Calculator

Materials provided : OMR Sheets, Graph paper

Examiner(s) : Khor Kok Chin, Nageswari Parmasivam, Hazrina, Dr Vignes  
Diane Janet

Moderator : Dr Evelyn Shyamala Devadason

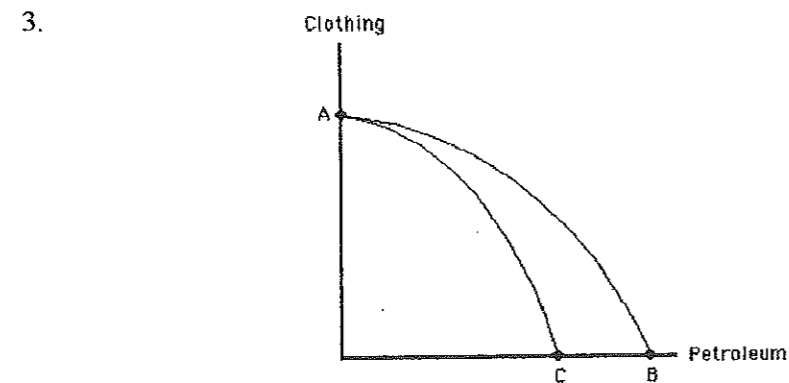
*This paper consists of 10 printed pages, including the cover page*

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 ECO2103: PRINCIPLES OF MICROECONOMICS  
 FINAL EXAMINATION: APRIL 2017 SESSION

**Section A: (40 marks)**

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

1. Economics is the study of \_\_\_\_\_.
  - A. how society manages its unlimited resources
  - B. how to reduce our wants until we are satisfied
  - C. how society manages its scarce resources
  - D. how to avoid having to make trade-offs
  
2. Microeconomics is concerned with \_\_\_\_\_.
  - A. the economy as a whole
  - B. the electronics and manufacturing industries
  - C. the study of individual economic behavior
  - D. the interactions within the entire economy



Which of the following could explain the shift in the production possibilities frontier from AC to AB shown in the figure above?

- A. Technical improvements in both petroleum and clothing production.
- B. A productive improvement in clothing production that has no effect on petroleum production.
- C. A decrease in the size of the labor force that can produce either petroleum products or clothing.
- D. Major oil reserves are discovered off the coast of Africa.

4. Which of the following might lead to a decrease in the demand for a product that can be stored?
- A. A fall in the price of a complement.
  - B. A rise in consumer incomes and the product is an inferior product.
  - C. An increase in the number of buyers.
  - D. An expected rise in price of the good.
5. If input prices increase, all else equal, \_\_\_\_\_.
- A. quantity supplied will decrease
  - B. supply will increase
  - C. supply will decrease
  - D. demand will decrease
6. An increase in the supply of a good will cause \_\_\_\_\_.
- A. an increase in equilibrium price and quantity
  - B. a decrease in equilibrium price and quantity
  - C. an increase in equilibrium price and a decrease in equilibrium quantity
  - D. a decrease in equilibrium price and an increase in equilibrium quantity
7. If a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is \_\_\_\_\_.
- A. 0.83
  - B. 0.3
  - C. 0.6
  - D. 1.2
8. The more the substitutes available for a product, \_\_\_\_\_.
- A. the larger is its income elasticity of demand
  - B. the smaller is its income elasticity of demand
  - C. the smaller is its price elasticity of demand
  - D. the larger is its price elasticity of demand
9. The long-run average total cost curve is often called the firm's:
- A. Planning Curve
  - B. Capital Expansion Path
  - C. Total Product Curve
  - D. Production Possibilities Curve

10.

Product X		Product Y	
Quantity	Marginal Utility	Quantity	Marginal Utility
1	32	1	24
2	28	2	20
3	24	3	16
4	20	4	12
5	16	5	8

The table above shows the marginal utility schedule for product X and product Y for a hypothetical consumer. The price of X is RM4 and the price of product Y is RM2. The income of the consumer is RM20. If the consumer can only buy product X, how much will the consumer buy and what will the total utility be?

- A. 4X and 20
- B. 4X and 104
- C. 5X and 16
- D. 5X and 120

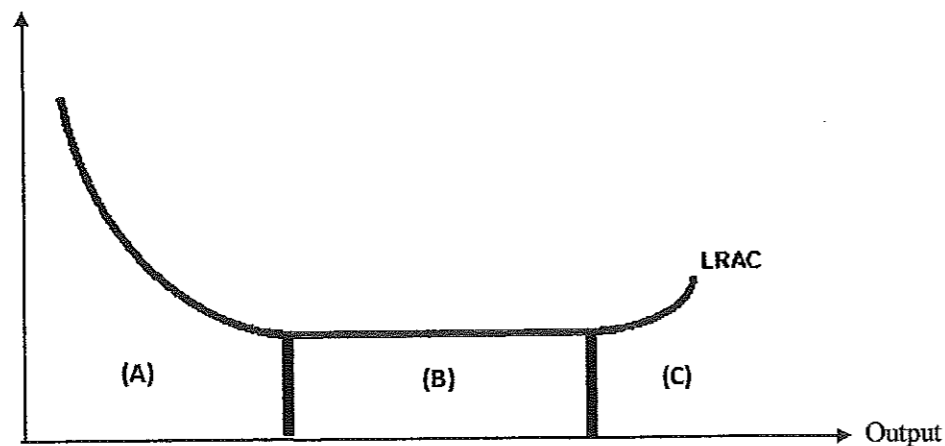
11.

Beverly sells 100 containers of homemade cookies for RM10 each. The cost of the ingredients, the containers, and the labels was RM700. In addition to that, it took her 20 hours to make the cookies and to do so she took time off from a job that paid her RM20 per hour. Beverly's accounting profit is \_\_\_\_\_ while her economic profit is \_\_\_\_\_.

- A. RM700; RM400
- B. RM300; RM100
- C. RM300; -RM100
- D. RM1000; -RM1100

12.

Average Total Cost



Based on the above average total cost (ATC) graph, constant returns to scale will be identified at:

- A. (A)
- B. (B)
- C. (C)
- D. None

13. Diseconomies of scale are NOT encountered until \_\_\_\_\_.
- A. A considerably small scale of output has been achieved
  - B. A considerably average scale of output has been achieved
  - C. A considerably large scale of output has been achieved
  - D. A considerably minimum scale of output has been achieved
14. Suppose that the note pad industry is perfectly competitive. Also assume that the market price for note pad is RM10 per note pad. The demand curve faced by each firm in the industry is:
- A. A horizontal line at \$10 per note pad
  - B. A vertical line at \$10 per note pad
  - C. The same as the market demand curve for note pad
  - D. Always higher than the firm's marginal curve.
15. Silverstone Tyre Service Centre is a perfectly competitive firm which has a fixed cost of RM10, 000 per month. The market price at which it can sell its output is RM100 per tyre. The service centre's minimum AVC is RM105 per tyre. The centre is currently producing 500 tyres a month (the output level at which  $MR=MC$ ). This service centre is making a \_\_\_\_\_ and should \_\_\_\_\_ production.
- A. profit; increase
  - B. profit; shutdown
  - C. loss; increase
  - D. loss; shutdown
16. Monopoly price can be reduced and output increased through \_\_\_\_\_.
- A. price discrimination rules
  - B. market demand
  - C. government regulations
  - D. strike
17. Which of the following best describes the efficiency of monopolistically competitive firms?
- A. Allocatively efficient but productively inefficient.
  - B. Allocatively inefficient but productively efficient.
  - C. Both allocatively efficient and productively efficient.
  - D. Neither allocatively efficient nor productively efficient.
18. In an oligopoly, each firm's share of the total market is typical determined by:
- A. Scarcity and competition.
  - B. Kinked demand curves and payoff matrices.
  - C. Homogenous products and import competition.
  - D. Product development and advertising.

19. All of the followings are ways to cope with negative externalities except;

- A. Tax on producers
- B. Liability rules and lawsuits
- C. Government provision
- D. Direct controls

20. Efficiency losses are the result of \_\_\_\_\_.

- A. underproduction
- B. overproduction
- C. over allocation of resources.
- D. Both A and B

**Section B: (40 marks)**

**Instruction:** Answer **TWO (2)** questions out of the three questions provided. Each question carries 20 marks.

**Question 1**

- (a) The people of Country X have 50 hours of labor a day that can be used to produce computer and car. The table shows the maximum quantity of either computer or car that Country X can produce with different quantities of labor

Labour	Computer		Car
0	0	or	0
10	20	or	30
20	40	or	50
30	60	or	60
40	80	or	65
50	100	or	67

- (i) Is an output of 50 units of computer and 50 units of car attainable and efficient? Explain your answer. (4 marks)
- (ii) With a production of 50 units of computer and 50 units of car, do the people of Country X face a tradeoff? Explain your answer. (2 marks)
- (b) Consider a simple economy producing two goods: cars and milk. The following table gives several points on the economy's production possibilities.

Cars (1000's/year)	Milk (1000's of gallons/ year)
0	60
1	50
2	30
3	0

- (i) Use graph paper to illustrate the economy's production possibility frontier. (4 marks)
- (ii) Why is the production possibility frontier downward sloping? (4 marks)
- (iii) Suppose the economy is currently producing 2000 cars and 30,000 gallons of milk. What is the opportunity cost of producing additional 20,000 gallons of milk? (2 marks)

- (iv) The synthetic production of Bovine Growth Hormone (BGH) allows dairy farmers to get twice as much milk from each cow. Explain carefully, using an appropriate diagram to illustrate your answer (*use the same graph paper to show your illustration*).

(4 marks)

**Question 2**

- (a) The price of spring water increase from \$1.90 to \$2.10 a bottle, and the quantity demanded decreases from 11 million to 9 million bottles a week.
- (i) Using the midpoint method, calculate the percentage change in the price of spring water.
- (ii) Using the midpoint method, calculate the percentage change in the quantity demanded for spring water.
- (iii) Calculate the price elasticity of demand for spring water. Is the demand for spring water elastic or inelastic?
- (iv) Would the demand for Coke be more elastic or less elastic than the demand for spring water? Why?

(2 marks)

(2 marks)

(4 marks)

(3 marks)

(4 marks)

- (c) The table below shows the price and quantity demanded for grapes at various prices.

Price /kg	Quantity demanded in kg.
12.50	3000
11.50	4400
10.50	6800

- (i) Calculate the price elasticity of demand for grapes when price increases from \$11.50 per kg to \$12.50 per kg by using the mid-point method. Interpret your answer.
- (ii) Calculate the cross price elasticity for grapes if a 20% decrease in price of apple causes the demand for grape juice to decrease from 5000kg to 3000kg. Interpret your answer.

(2.5 marks)

(2.5 marks)

**Question 3**

- (a) (i) Differentiate between the terms 'short run' and 'long run' in the production of a firm. (2 marks)
- (ii) What is marginal product and why does it diminish as the number of workers increase? (2 marks)

- (b) Consider the following production function for a car manufacturer, "Greasy Wrench".

<b>Number of workers</b>	0	1	2	3	4	5	6	7	8	9	10
<b>Output</b>	0	10	25	40	50	59	61	62	62	62	60
<b>Marginal Product</b>											

- (i) Fill in the missing values for the marginal product. (5 marks)
- (ii) When does the law of diminishing marginal product set in? (1 mark)

- (c) "Greasy Wrench" faces the following cost schedule:

<b>Quantity (Q)</b>	<b>Fixed Cost (FC) RM</b>	<b>Variable Cost (VC) RM</b>	<b>Total Cost (TC) RM</b>	<b>Average Variable Cost (AVC) RM</b>	<b>Average Fixed Cost (AFC) RM</b>	<b>Average Cost (AC) RM</b>
0			46			
1			76			
2			96			
3			104			
4			110			
5			116			
6			126			
7			140			
8			164			
9			198			

Complete the table above.

(10 marks)

**Section C: (20 marks)**

**Instruction:** Answer **ONE (1)** question out of the two questions provided.

**Question 1**

- (a) Explain **FOUR (4)** types of production factors with appropriate examples. (8 marks)
- (b) Distinguish the difference between positive economics and normative economics with appropriate examples. (6 marks)
- (c) Explain microeconomics' objectives with appropriate justification. (6 marks)

**Question 2**

- (a) Explain the Law of diminishing marginal utility with an appropriate diagram. (12 Marks)
- (b) Illustrate consumer surplus using an appropriate diagram. Assume that price elasticity of demand is inelastic. (8 marks)