



INTI
International College Subang

LAUREATE INTERNATIONAL UNIVERSITIES*

FINAL
Examination Paper

(COVER PAGE)

Session : April 2013

Programme : Diploma in Business

Course : **ECO2103 : PRINCIPLES OF MICROECONOMICS**

Date of Examination : August 2, 2013

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

provided. All questions carry equal marks.

Materials permitted : Nil

Materials provided : Nil

Examiner(s) : **Ms. Sara Seah Peng Teng, Nageswari Parmasivam, Diane Joseph.**

Moderator : Associate Professor Dr. Evelyn S. Devadason

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

INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS PROGRAMME (DIB)
 ECO 2103: PRINCIPLES OF MICROECONOMICS
 FINAL EXAMINATION : APRIL 2013 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) Outline any **FOUR** arguments to support a market system. (12 marks)
- (b) The people of Leisure Island have 50 hours of labor a day that can be used to produce entertainment and good food. The table shows the maximum quantity of *either* entertainment or good food that Leisure Island can produce with different quantities of labor

Labor	Entertainment (units)		Good food (units)
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 entertainment and 50 units of good food attainable and efficient? Explain your answer. (4 marks)
- (ii) With a production of 50 units of entertainment and 50 units of good food, do the people of Leisure Island face a tradeoff? Explain your answer. (2 marks)
- (iii) Assume Leisure Island is currently producing on the production possibility curve (PPC). Explain **how** and **why** the opportunity cost of producing a unit of entertainment changes as more entertainment is produced. (5 marks)
- (iv) Suppose the food producer adopted a new technology, which allows it to use fewer resources to produce food. Explain how the opportunity cost of producing a unit of entertainment will be affected. (2 marks)

Question 2

Answer and explain your answer for each of the following events.

- (a) The garment factory can produce both cardigan sweaters and pullover sweaters. What happens to the supply curve of cardigan sweaters if the price of a pullover sweater increases?
(4 marks)
- (b) What happens to the supply curve of new homes if the wage rate paid to carpenters falls?
(4 marks)
- (c) The price of a concert ticket increases. What is the effect on the demand curve for concerts?
(4 marks)
- (d) More people decide to have a pet cat. What is the effect of this decision on the demand for cat food?
(4 marks)
- (e) Suppose people are influenced by reports that eating oatmeal helps prevent heart disease. What is the effect of this change on the equilibrium price of oatmeal and the equilibrium quantity of oatmeal?
(4 marks)
- (f) Suppose a technological advance lowers the cost of producing computer memory chips. What is the effect of this change on the demand, supply, equilibrium price and equilibrium quantity of memory chips?
(5 marks)

Question 3

- (a) The price of mineral water rises 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 mineral water.
(2 marks)
- (ii) Using the midpoint method, calculate the percentage change in the quantity demanded of mineral water.
(2 marks)
- (iii) Calculate the price elasticity of demand for mineral water. Is the demand for mineral water elastic or inelastic?
(4 marks)

- (iv) Would the demand for Pepsi be more elastic or less elastic than the demand for mineral water? Why? (4 marks)
- (b) The price elasticity of demand for Bob's chocolate chip cookies is 1.5. Bob wants to increase his total revenue. Would you recommend that Bob raise or lower his price of cookies? Explain your answer. (5 marks)
- (c) With the aid of a diagram, illustrate and explain how price changes eliminate the following market conditions:
- (i) A shortage (4 marks)
- (ii) A surplus (4 marks)

Question 4

- (a) Describe the relationship between marginal cost and marginal product. (6 marks)
- (b) The table shows Bobby's total utility from popcorn and soda. Assume the price of a bag of popcorn is \$2, the price of a can of soda is \$1, and Bobby's budget is \$10. What is the Bobby's utility maximizing combination of cans of soda and bags of popcorn? Show your work.

Popcorn		Soda	
Bags (per week)	Total utility	Cans (per week)	Total utility
0	0	0	0
1	40	1	30
2	60	2	50
3	70	3	65
4	75	4	70
5	77	5	73

(10 marks)

- (c) Explain the water-diamond paradox. Use an equation in your explanation of the mechanism responsible for this. (9 marks)

Question 5

- (a) Draw three separate diagrams, showing that the monopolist (i) makes a profit, (ii) breaks even and (iii) incurs a loss. Label and explain your diagram in detail. (9 marks)

- (b) Roy is a potato farmer, and the world potato market is perfectly competitive. The market price is \$25 a bag. Roy sells 40 bags a week, and his marginal cost is \$20 a bag.
- (i) Calculate Roy's total revenue. (3 marks)
- (ii) Calculate Roy's marginal revenue. (3 marks)
- (iii) Is Roy maximizing profit? Explain your answer. (5 marks)
- (iv) The price falls to \$18 a bag, and Roy cuts his output to 25 bags a week. His average variable cost and marginal cost fall to \$18 a bag. Is Roy maximizing profit? Is he making an economic profit or incurring an economic loss? (5 marks)

Question 6

- (a) Dom's pewter frames factory pays \$60 a day for equipment and \$200 a day to each worker it hires. The table sets out Dom's total product schedule.

Labour (workers per day)	Total product (pewter frames per day)
0	0
1	20
2	44
3	60
4	72

- (i) Construct Dom's total variable cost and total cost schedules. (4 marks)
- (ii) Construct the average fixed cost, average variable cost, average total cost and marginal cost schedules. (8 marks)
- (b) Define "economies of scale" and briefly explain any FOUR factors that contribute to economies of scale. (13 marks)

-THE END-

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