

**FINAL**  
Examination Paper

(COVER PAGE)

Session : August 2016

Programme : Diploma In Business (DIB)

Course : **ECO2103: Principles of Microeconomics**

Date of Examination : 07 December, 2016 (Wednesday)

Time : 8:00am – 10:00am 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

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Diane Janet A/P Alphonse Joseph

Moderator : Dr. Mohamed Aslam Bin Gulam Hassan

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

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
ECO2103: PRINCIPLES OF MICROECONOMICS  
FINAL EXAMINATION: AUGUST 2016 SESSION

**Instruction:** This paper consists of **THREE (3) SECTIONS**. Answer **ALL** questions in **SECTION A**; any **TWO (2)** questions in **SECTION B** and any **ONE (1)** question in **SECTION C**.

**SECTION A:** Answer **ALL** questions in the OMR sheet provided below. **(40 marks)**

1. Statement one

“INTI has decided to offer a new program”

Statement two

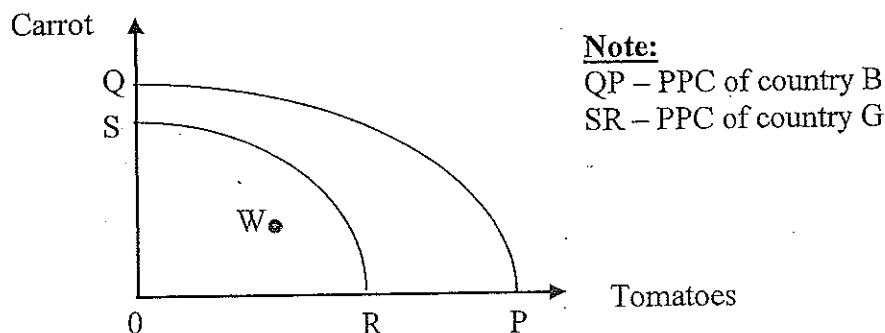
“Malaysian consumers switched to consume more fish as price of chicken increases”

- A. Statement one is macroeconomics and statement two is microeconomics.
- B. Statement one and two are both microeconomics.
- C. Statement one is microeconomics and statement two is macroeconomics.
- D. Statement one and two are both macroeconomics.

2. Due to limited economic resources, every country

- A. faces surplus.
- B. needs to decide when and where to produce.
- C. must prevent opportunity costs from happening.
- D. must sacrifice present consumption to enjoy greater growth in future.

3.

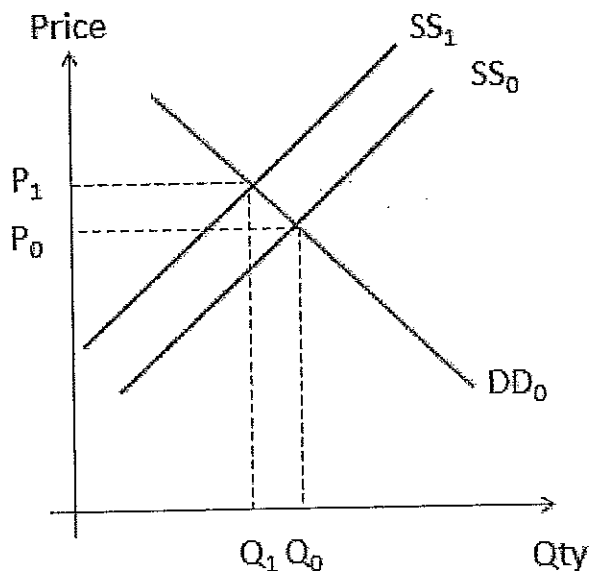


With reference to the production possibilities curves of country B and G, which of the following statements is correct?

- A. Point W is unattainable to both countries.
- B. Point W is an efficient production choice to both countries.
- C. The area between SR and QP are attainable to country B only.
- D. If tomato farming technology improves, country G's production possibilities curve will shift to QP.

4. If Apple company uses more robotic technology within its factory to produce smartphone, this decision is related to
- what to produce.
  - how to produce.
  - for whom to produce.
  - when to produce.
5. If the current price is lower than the market equilibrium,
- quantity supplied is greater than quantity demanded.
  - the government must give subsidies.
  - there is a shortage in the market.
  - the demand curve starts to shift leftwards.
6. Higher income causes the demand for \_\_\_\_\_ to increase.
- normal goods
  - inferior goods
  - substitutes
  - complements

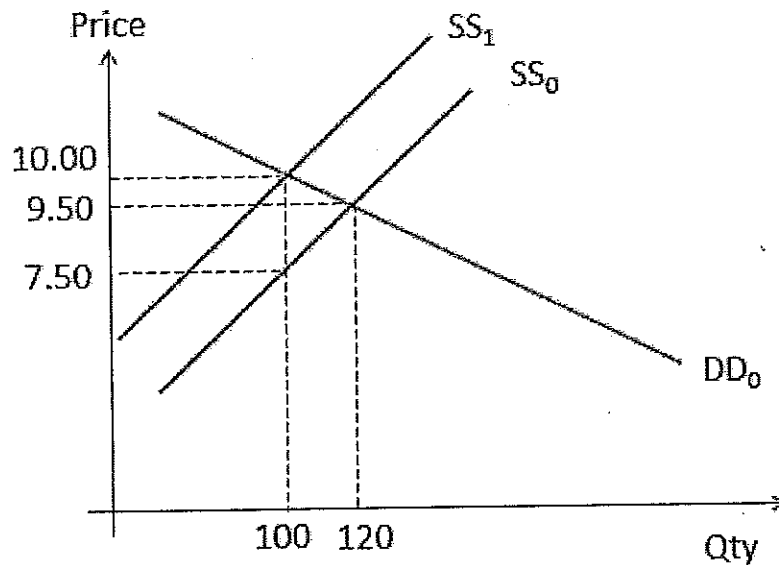
7. The diagram below shows the market for fresh fish.



The shift from  $SS_0$  to  $SS_1$  is likely to be caused by

- higher subsidies for the fishermen.
- a severe pollution in the sea.
- higher fish prices.
- lower demand for prawns.

8. The diagram below shows the market for apples.



Referring to the diagram, the **per-unit tax** that the government imposes is

- A. \$10.00  
 B. \$9.50  
 C. \$2.50  
 D. \$2.00
9. The cross price elasticity between the demand for cars and the price of petrol is
- A. zero.  
 B. positive.  
 C. negative.  
 D. infinite.
10. The demand for product is likely to be inelastic when
- A. the product takes up a bigger percentage of the consumers' income.  
 B. more substitutes are available for the product.  
 C. the product is a necessity.  
 D. more time is given for adjustments.
11. The income elasticity of demand for product K is +5.4. If income were to decrease,
- A. the demand curve for product K will shift to the left.  
 B. the demand curve for product K will shift to the right.  
 C. there will be an upward movement along the demand curve.  
 D. there will be a downward movement along the demand curve.

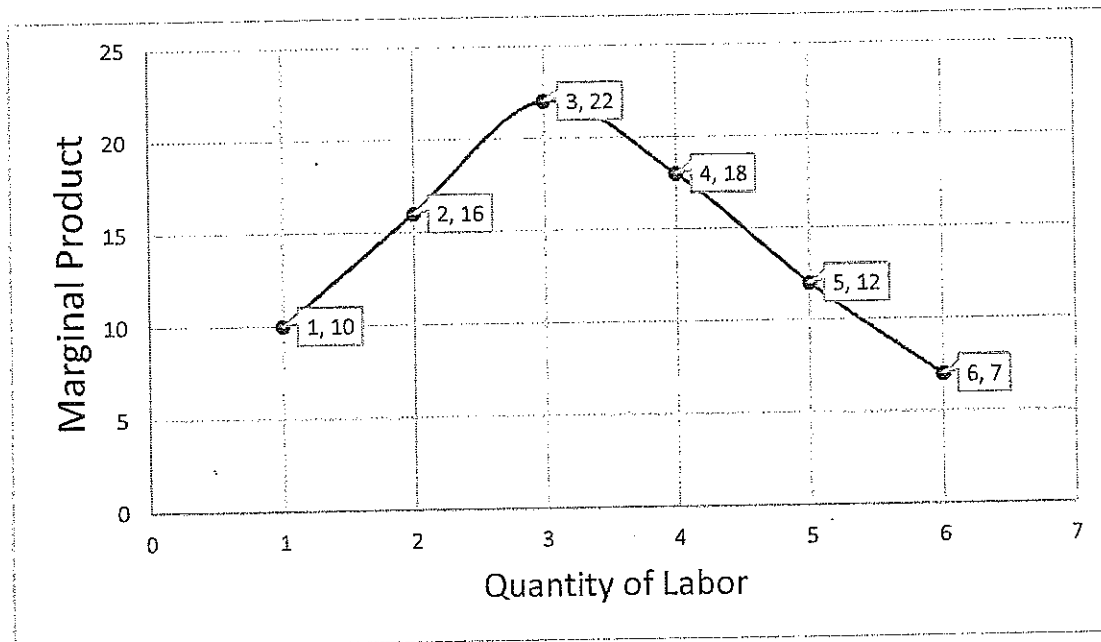
12. You are given the following information:

$MU_x$  = marginal utility of product X,  $P_x$  = price of product X per unit  
 $MU_y$  = marginal utility of product Y,  $P_y$  = price of product Y per unit

If  $MU_x/P_x < MU_y/P_y$ , the consumer

- A. should increase the consumption of Y and reduce X.
- B. should increase the consumption of X and reduce Y.
- C. should increase the consumption of both goods.
- D. should reduce the consumption of both goods.

Use the following diagram to answer Question 13 and 14.



13. Referring to the diagram, diminishing marginal product starts when the firm hires the \_\_\_\_\_ worker.

- A. first
- B. second
- C. third
- D. fourth

14. When four workers are employed, the total product is

- A. 16 units.
- B. 18 units.
- C. 48 units.
- D. 66 units.

15. An increase in the rental affects

- I. Total costs
- II. Total fixed costs
- III. Average fixed costs
- IV. Average total costs

- A. I and II
- B. III and IV
- C. II and III
- D. I, II, III and IV

16. A firm's average total costs will fall in the long run when the firm experiences

- A. increasing marginal returns
- B. economies of scale
- C. diseconomies of scale
- D. increasing marginal utility

17. With reference to a perfectly competitive firm, which of the following statements is **CORRECT**?

- A. The marginal revenue curve of the firm is U-shaped.
- B. The marginal revenue of the firm is equal to the market price.
- C. The marginal revenue value may be positive or negative.
- D. The marginal revenue cuts the firm's average revenue curve at the minimum point.

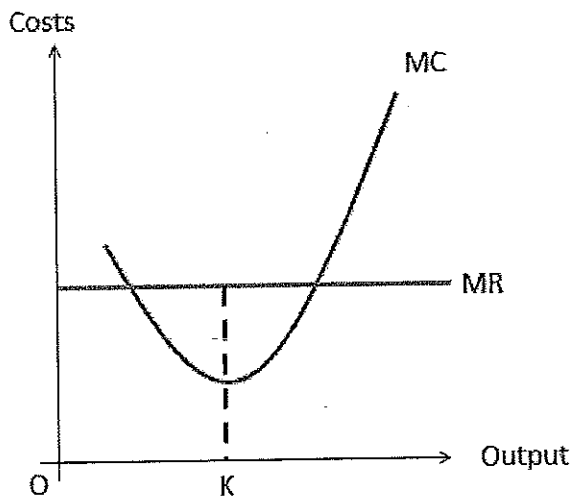
18. Firms in \_\_\_\_\_ market are interdependent.

- A. perfectly competitive
- B. monopoly
- C. oligopoly
- D. monopolistic competitive

19. The demand curve in a monopolistically competitive firm is

- A. kinked.
- B. relatively inelastic.
- C. relatively elastic.
- D. upward sloping.

20. Refer to the following diagram.



A perfectly competitive firm is currently producing OK units of output. For the firm to maximize profits, the firm has to

- A. reduce price.
- B. increase price.
- C. maintain its production level.
- D. increase its production level.

**SECTION B:** Answer any **TWO (2)** questions in the answer booklet provided. **(40 marks)**

1. The following table illustrates the market quantity of two different products at various price levels.

| Product A |                   | Product B |                   |
|-----------|-------------------|-----------|-------------------|
| Price     | Quantity supplied | Price     | Quantity supplied |
| \$3.00    | 1,800             | \$3.00    | 3,700             |
| \$5.00    | 3,000             | \$5.00    | 4,900             |

- (a) Assuming that price rises from \$3.00 to \$5.00 per unit, calculate the price elasticity of supply using the midpoint formula for both products. (6 marks)
- (b) Based on your calculation in part (a), state the product that has a more elastic supply. (2 marks)
- (c) Explain **THREE (3)** possible reasons that make the supply of a product more elastic. (6 marks)

- (d) If *the demand curves in both markets were to shift to the right by the same distance*, which market would experience a bigger change in market equilibrium price and which market would experience a bigger change in market equilibrium quantity?

Support answer by preparing two sets of market demand and supply curves; one for product A and one for product B. Explanations are not required for this question.

(6 marks)

2. Zaleha owns a firm in Johor which manufactures product J and the product is sold in a perfectly competitive market.

- (a) The following table illustrates the production costs of Zaleha's firm.

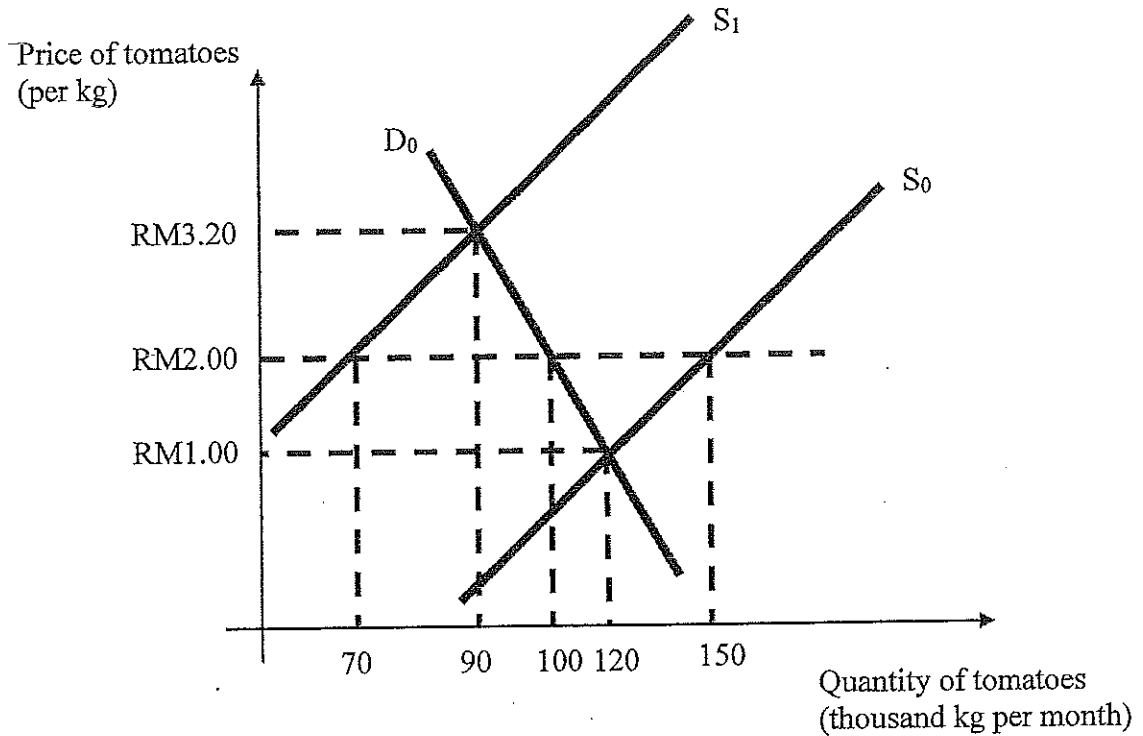
| Q | TC (\$) | ATC   | MC |
|---|---------|-------|----|
| 0 | 10      | -     | -  |
| 1 | 30      | 30    |    |
| 2 |         |       | 10 |
| 3 | 48      | 16    | 8  |
| 4 | 54      | 13.50 | 6  |
| 5 | 62      |       |    |
| 6 | 77      |       |    |
| 7 | 107     |       |    |
| 8 |         | 18.75 |    |
| 9 | 216     |       | 66 |

Fill up the missing blanks.

(6 marks)

- (b) i. Briefly explain the term fixed costs. (2 marks)
- ii. Using the information provided above, state Zaleha's fixed costs. (1 mark)
- (c) Why do Zaleha's marginal costs decrease and then increase as more output is produced in the short run? (5 marks)
- (d) If product J were sold at \$15 per unit, determine the following for Zaleha:
- the profit maximizing price
  - the profit maximizing output
  - total profit earned
- (6 marks)

3. The following diagram illustrates the hypothetical market for tomatoes in Malaysia.



- (a) Malaysia is a mixed economic system. Briefly explain how this system decides the quantity of tomatoes to be produced in the market. (5 marks)
- (b)  $D_0$  and  $S_0$  represents the initial market demand and supply curves. Using these curves, find:
- the initial market equilibrium price
  - the initial market equilibrium quantity
  - the initial total revenue earned by all tomato farmers in Malaysia (6 marks)
- (c) Refer to  $D_0$  and  $S_0$ . If the Malaysian government were to fix RM2.00 per kg as the price floor in the tomato market and agrees to buy up the surplus of tomatoes, find:
- the total expenditures of the tomato consumers
  - the total revenue earned by all tomato farmers
  - the costs of government support (6 marks)
- (d) Assuming that the price floor remains at RM2.00 per kg, briefly explains what happens in the market if the supply curve were to shift to  $S_1$ . (3 marks)

**SECTION C: Answer any ONE (1) question in the answer booklet provided. (20 marks)**

1. (a) Using examples, explain any **FOUR (4)** barriers that exist in a monopoly market. (10 marks)
- (b) Assume ASTRO Malaysia as a monopoly firm providing satellite TV service. With other factors remaining constant, will lower subscription charges help to improve the total revenue of the firm? Explain your answer with the aid of a downward sloping demand curve. (10 marks)
2. Chong owns a Chinese restaurant in Kuala Lumpur. Currently he is having losses but continuing operation in the short run.
  - (a) In your opinion, is it suitable to classify the restaurant industry in Kuala Lumpur as a monopolistic competitive market? Use any **FOUR (4)** characteristics of the market structures to explain your answer. (10 marks)
  - (b) Illustrate Chong's current situation in a diagram. (5 marks)
  - (c) Assuming that Chong and quite a large number of restaurants in Kuala Lumpur are facing the losses situation, will the industry continue to have losses in the long run equilibrium? Explain. (5 marks)

~ The End ~

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