



FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2017

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : 9 December, 2017 (Saturday)

Time : 8:00 am – 10:00 am 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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This paper consists of 10 printed pages, including the cover page

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

Section A: (40 marks)

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

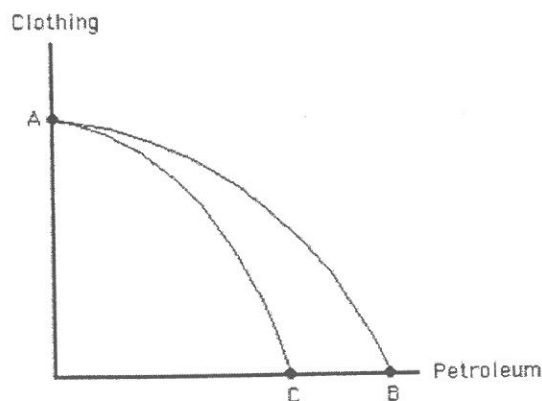
1. Which of the following statements is not related to economic problems?

- A. What to produce?
- B. For whom to produce?
- C. Where to produce?
- D. How to produce?

2. Macroeconomics is concerned with _____.

- A. the economy as an aggregate
- B. the small units such as a households
- C. the study of individual economic behavior
- D. none of the above

3.



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

- A. Technology advancements in both petroleum and clothing production.
- B. A negative impact on clothing production that has no effect on petroleum production.
- C. A decrease in the size of the population that can produce either petroleum or clothing.
- D. Major oil reserves are discovered in Saudi Arabia.

4. Which of the following might lead to an increase in the demand for a good
- A. A fall in the price of a complement.
 - B. A rise in consumer incomes and the product is an inferior product.
 - C. An decrease in the number of buyers.
 - D. An expected decrease in price of the good.
5. Movement along the demand curve for high rise apartments will be caused by a change in _____.
- A. consumers' income
 - B. consumers' taste and preference
 - C. the price of the high rise apartments
 - D. the price of the single-storey link houses
6. A decrease 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 the elasticity of a demand for a microwave oven is 1.5, this means _____
- A. few substitutes exist
 - B. a 10% decrease in price will lead to a 15% increase in quantity demanded
 - C. a 5.5% decrease in price will lead to a 7.5% increase in quantity demanded
 - D. a 10% increase in a price will lead to a 150% decrease in quantity demanded
8. The lesser 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. When output increases in higher proportions than the increases in inputs, the return to scale is _____
- A. decreasing
 - B. increasing
 - C. negative
 - D. constant

10.

Quantity of biscuits	Total utility	Quantity of hot dogs	Total utility
2	40	1	45
4	70	2	75
6	90	3	100

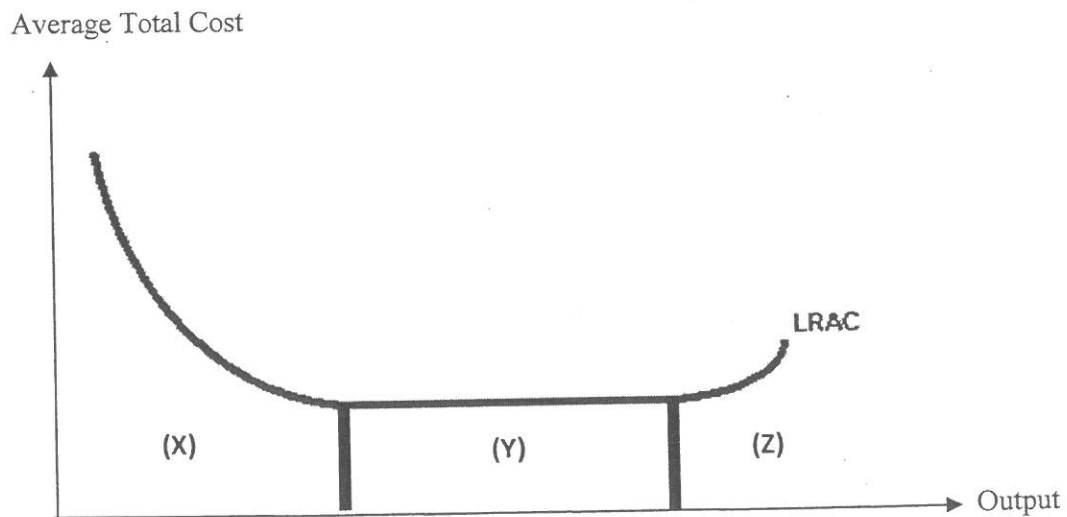
Aiswarya has RM4 to spend; the price of biscuits is RM0.50 and the price of hot dogs is RM1.00 per unit. The following table shows Aiswarya's utility from the biscuits and hot dogs. Which is the optimal combination of biscuits and hot dogs for Aiswarya?

- A. 1 biscuit and 2 hot dogs
- B. 2 biscuit and 2 hot dogs
- C. 3 biscuits and 3 hot dogs
- D. 4 biscuits and 2 hot dogs

11. When a 4th glass of milk does not generate as much as satisfaction the 3rd glass, this illustrates _____

- A. consumer equilibrium
- B. diminishing marginal utility
- C. diminishing total utility
- D. marginal rate of substitution

12.



Note: LRAC – long run average cost

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

- A. (X)
- B. (Y)
- C. (Z)
- D. None

13. A firm's marginal cost curve in the short run eventually increases as production increases, due to the effects of
- A. economies of scale
 - B. diseconomies of scale
 - C. law of diminishing return
 - D. none of the above
14. Suppose that the i-pad industry is perfectly competitive. Also assume that the market price for i-pad is RM20 per i-pad. The price line faced by each firm in the industry is:
- A. a horizontal line at \$20 per i-pad
 - B. a vertical line at 20 per i-pad
 - C. above the market demand curve for i-pad
 - D. always higher than the firm's marginal curve.
15. Thomson industry has RM2,000 in variable costs and RM500 in fixed costs when its output is 250 units. The firm sells each unit of output at the price of RM25. If the price of each output drops at RM10, should the firm continue its operations in the short run?
- A. No, because profit is zero
 - B. No, because price is less than average total cost (ATC)
 - C. Yes, because price is less than ATC
 - D. Yes, because price is greater than average variable cost (AVC)
16. A monopolist demand curve is _____
- A. unit elastic
 - B. perfectly elastic
 - C. perfectly inelastic
 - D. identical to the industry demand curve
17. Monopolistic competition means ____ producing ____ goods.
- A. few firms; standardized
 - B. few firms; differentiated
 - C. many firms; standardized
 - D. many firms; differentiated
18. Having advertising expenditure usually indicates _____
- A. differentiated oligopoly or monopolistic competition
 - B. pure competition or monopolistic competition
 - C. differentiated pure competition or monopoly
 - D. oligopoly or monopoly

19. The marginal revenue of a perfectly competitive firm _____
- A. increases at an increasing rate as output expands
 - B. lies below the firms' demand
 - C. is horizontal at the market price
 - D. is downward sloping as price must be reduced to sell more output
20. All of the following are ways to cope with negative externalities except;
- A. Tax on producers
 - B. Liability rules and lawsuits
 - C. Government incentives
 - D. Direct controls

Section B: (40 marks)

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

Question 1

The following table represents the production possibilities schedule for an economy which produces only apples and grapes.

Combinations	Apples (kg)	Grapes (kg)
A	0	8
B	1	7.5
C	2	6.5
D	3	5
E	4	3
F	5	0

- (a) Use a graph paper to illustrate the economy's production possibilities curve (PPC).
(4 marks)
- (b) What is the opportunity cost of increasing the apple production from 2kg to 3kg?
(3 marks)
- (c) For the following production, state and explain whether each production is attainable or unattainable, and the efficiency of the production.
- (i) 1.5 kg of apples and 7 kg of grapes (3 marks)
 - (ii) 3.5 kg of apples and 3 kg of grapes (3 marks)
 - (iii) 6 kg of apples and 10 kg of grapes (3 marks)
- (d) If any of the answers in (c) is 'unattainable', state and explain two factors that could make the combination[s] attainable instead.
(4 marks)

Question 2

The following table shows the relationship between the price of good X and the quantity demanded for goods A, B and C [consumed by household].

Price of good X (RM)	Quantity demanded [unit]		
	Good A	Good B	Good C
10	80	100	100
20	60	120	90
30	40	140	80
40	20	160	70
50	0	180	60

(a) Define:

- (i) Cross elasticity of demand (2 marks)
- (ii) Income elasticity of demand (2 marks)

(b) If the price of good X decreases from RM40 to RM20, calculate the cross elasticity of demand for:

- (i) Good X and A (3 marks)
- (ii) Good X and B (3 marks)

(c) Determine how goods A and B are related to good X. (1 mark)

(d) Suppose that the income of the household increases from RM1, 000 to RM1, 400 and the demand for good C decreases from 80units to 60 units. Calculate the income elasticity of demand for good C and explain what type of good C is. (3 marks)

(e) For each of the following statements, calculate the elasticity co-efficient and explain their meanings.

- (i) When the price of coffee dropped from RM0.90 to RM0.80 per cup, the quantity demanded for sugar also decreased from 50 to 20 units. (3 marks)
- (ii) When wage rate increased from RM8 to RM10units per hour, the number of applicants rose from 200 to 280 people. (3 marks)

Question 3

(a) The following table shows the product schedules of KD Corporation, which produces electronic items. Suppose that the workers are variable inputs and the machines used are fixed inputs in this production. Based on the given information, answer the questions.

Workers	Total Product	Marginal Product
0	0	
1	25	
2	85	
3	125	
4	155	
5	165	
6	155	

- (i) Calculate the marginal product of each level of workers. (2 marks)
- (ii) When might the firm experience the law of diminishing marginal returns? (1 mark)
- (iii) The marginal product schedule starts to be negative by the _____ worker. (1 mark)

(b) Complete the following table.

Output (unit)	Total Variable Cost(TVC) (RM)	Total Cost(RM)	Marginal Cost (RM)	Average Total Cost (RM)	Average Variable Cost (RM)	Average Fixed Cost (RM)
1	100			150		
2	160			105		
3	200			83.34		
4	260			77.50		
5	340			78		
6	440			81.70		
7	560			87.14		
8	700			93.75		

(8 marks)

- (i) What is the fixed cost faced by the firm? (2 marks)
- (ii) Suppose that the firm decided to increase its production from 5 to 6 units, how will this affect the Total Cost (TC)? (2 marks)
- (iii) Draw a graph without scale to show the relationship between Average Product (AP), Marginal Cost (MC) and Average Variable Cost (AVC), Marginal Cost (MC). (4 marks)

Section C: (20 marks)

Instruction: Answer **ONE (1)** question out of the **TWO (2)** questions provided.

Question 1

- (a) Define economics. Briefly explain with an illustration of a diagram on maximum pricing and minimum pricing. (7 marks)
- (b) Explain any **FOUR (4)** factors that influence the price elasticity of demand. (8 marks)
- (c) Briefly explain the relationship between Average Total Cost (ATC) and Marginal Cost (MC) with an illustration of a diagram. (5 marks)

Question 2

- (a) Define utility, and explain the relationship between total utility and marginal utility with an illustration of a diagram. (5 marks)
- (b) Discuss with an illustration of diagrams the short run equilibrium of a firm under a perfect competition. (9 marks)
- (c) Briefly explain any **THREE (3)** types of barriers of entry imposed by a monopolist. (6 marks)

~The End~