

FINAL
Examination Paper

(COVER PAGE)

Session : April 2016

Programme : Diploma In Business (DIB)
Diploma In Finance (DIF)
Diploma In Entrepreneurship (DENT)

Course : **ECO2103: Principles of Microeconomics**

Date of Examination : 29 July, 2016 (Friday)

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

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Moderator : Dr. Mohamed Aslam Bin Gulam Hassan

This paper consists of 3 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
 DIPLOMA IN FINANCE (DIF)
 DIPLOMA IN ENTREPRENEURSHIP (DENT)
 ECO2103: PRINCIPLES OF MICROECONOMICS
 FINAL EXAMINATION: APRIL 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. Each question carries **(40 marks)**
 2 marks.

1. Statement one
 "The Ringgit will weaken by 10% on next month"

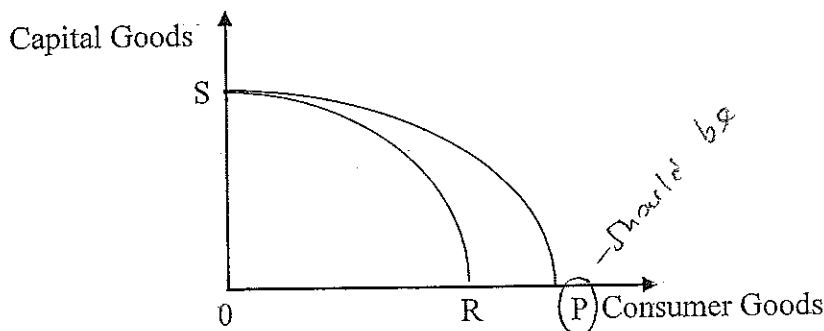
Statement two
 "Malaysian central bank should intervene to defend Ringgit"

- A. Statement one is positive and statement two is normative.
 B. Statement one and two are both positive.
 C. Statement one is normative and statement two is positive.
 D. Statement one and two are both normative.

2. Scarcity

- A. does not affect the high income countries.
 B. can be solved by increasing price in the market.
 C. is equals to shortage.
 D. makes the points above the production possibilities curve unattainable.

- 3.



Which of the following explain the shift of PPF from SR to QP?

- A. Technology advancement on the production of consumer goods.
 B. Technology advancement on the production of capital goods.
 C. Increase in total population.
 D. Discovery of new resources.

4. Which of the following is an example of a microeconomics topic?
- A. the causes of unemployment in UK
 - B. the consequences of faster economic growth
 - C. inflation in Thailand
 - D. price of houses in Kuala Lumpur
5. The market equilibrium price for chicken sausages is predicted to
- A. rise when the price of its complements increases.
 - B. rise when the price of its substitutes increases.
 - C. decrease when chicken farms are attacked by bird flu.
 - D. decrease when workers working in the industry go on strike.
6. Which of the following is **CORRECT**?
- I. Price and quantity demanded are negatively related.
 - II. Demand curve for goods X shifts to the right when price of X decreases.
 - III. According to the law of demand, the demand curve is downward sloping.
 - IV. Gain of buyers are known as consumer surplus.
- A. I and II.
 - B. II and III.
 - C. I, III and IV.
 - D. I, II, III, IV.
7. Given that when income increase by 15%, quantity demand for watch will increase by 20%. The income elasticity of demand will be:
- A. 1.33, watch is normal goods.
 - B. 1.33, watch is inferior goods.
 - C. 0.75, watch is normal goods.
 - D. 0.75, watch is inferior goods.
8. The cross price elasticity of demand for product A with respect to price of B is +6.25. Based on this information, we can conclude that
- A. consumers in the market like product A and B.
 - B. product A might be Lenovo smartphones and product B might be Lenovo power banks.
 - C. both products have lots of substitutes.
 - D. demand for product A and price of product B are positively related.
9. A supply that is perfectly inelastic
- A. is downward sloping.
 - B. is upward sloping.
 - C. is horizontal.
 - D. is vertical.

10. Law of equi-marginal utility states that

Note: 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

- A. consumer maximize utilities when $MU_x/P_x > MU_y/P_y$.
 - B. consumer maximize utilities when $MU_x/P_x = MU_y/P_y$.
 - C. consumer maximize utilities when $MU_x/P_x < MU_y/P_y$.
 - D. consumer maximizes utilities when $MU_x = MU_y$.
11. Alex is willing to pay RM2800 for an Apple I6. Currently the smartphone is sold at the price of RM2500. The RM300 difference is known as
- A. opportunity cost.
 - B. consumer surplus.
 - C. marginal utility.
 - D. diminishing marginal returns.
12. The total cost for producing shoes in Firm A is RM 100 per pair. This amount is made up of RM 20 for labor cost, RM 35 for material cost and RM 45 for rental cost. Based on the information above, calculate the total fixed cost of producing 10 pairs of shoes.
- A. RM 550
 - B. RM 55
 - C. RM 45
 - D. RM450
13. Firms in perfect competition market is said to achieve both resource allocation efficiency and productive efficiency. Why?
- A. Because firms in perfect competition market have absolute market power.
 - B. Because firms in perfect competition market is price taker.
 - C. Because firms in perfect competition market produce output when $P=MC$ and $P=\min ATC$.
 - D. Because firm in perfect competition market produce output when $P>MC$ and $P>\min ATC$.
14. In long-run, all firms in perfect competition market are having zero economic profit because:
- A. product sold by firms are homogenous.
 - B. firms will form cartel and become monopoly.
 - C. firms can freely enter and exit the market.
 - D. buyers or sellers have perfect information on the product offered in market.
15. When a firm can supply to the whole market at a lower cost per unit as compared to two or more firms in the market, the firm is known as a
- A. government controlled monopoly.
 - B. profit maximizing monopoly.
 - C. natural monopoly.
 - D. perfectly competitive monopoly.

16. At the profit maximizing output level, a monopoly firm earns super normal profits if
- A. its average revenue is lower than its average total costs.
 - B. its marginal revenue is lower than its marginal costs.
 - C. its average revenue exceeds average total costs.
 - D. its marginal revenue exceeds marginal costs.
17. Monopolistically competitive firms sell
- A. homogeneous products.
 - B. differentiated products.
 - C. products at a standard price.
 - D. at the price that equals to marginal cost.
18. The market share of industry B is controlled only by five firms. Based on the information given, industry B is a good example of
- A. perfect competition market.
 - B. monopoly market.
 - C. monopolistic competition market.
 - D. oligopoly market.
19. To reduce the market failure that comes from positive consumption externalities, the government can consider
- A. increasing taxes.
 - B. a ban on the product.
 - C. increasing subsidies.
 - D. reducing subsidies.
20. "Smoking has a lot of negative health impacts on smokers and non-smokers". Identify the type of externality that is caused by smoking.
- A. Positive consumption externality.
 - B. Positive production externality.
 - C. Negative consumption externality.
 - D. Negative production externality.

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

1. Super Enterprise is a company that produce mobile phone in Malaysia market. They found that when the price of their product increase from RM 1300 to RM 1600, the quantity demanded for their product would decreases from 120 to 100 units per month. At the same time, the quantity demanded for Good Y would decreases from 300 to 200 per month.
- (a) Calculate the price elasticity of demand using the midpoint formula. (4 marks)
- (b) Based on your answer in part (a), explain the price strategy that Super Enterprise should use to improve their company's total revenue. (4 marks)
- (c) Explain any **THREE (3)** determinants of price elasticity of demand. (6 marks)
- (d) (i) Based on the information given above, calculate the cross elasticity of demand using the midpoint formula. (4 marks)
- (ii) State one possible example of Good Y and interpret the cross price elasticity value that you obtained in part (i). (2 marks)
2. Firm ABC is a perfectly competitive firm that sells product W. Currently, product W is priced at \$30 per unit in the market.

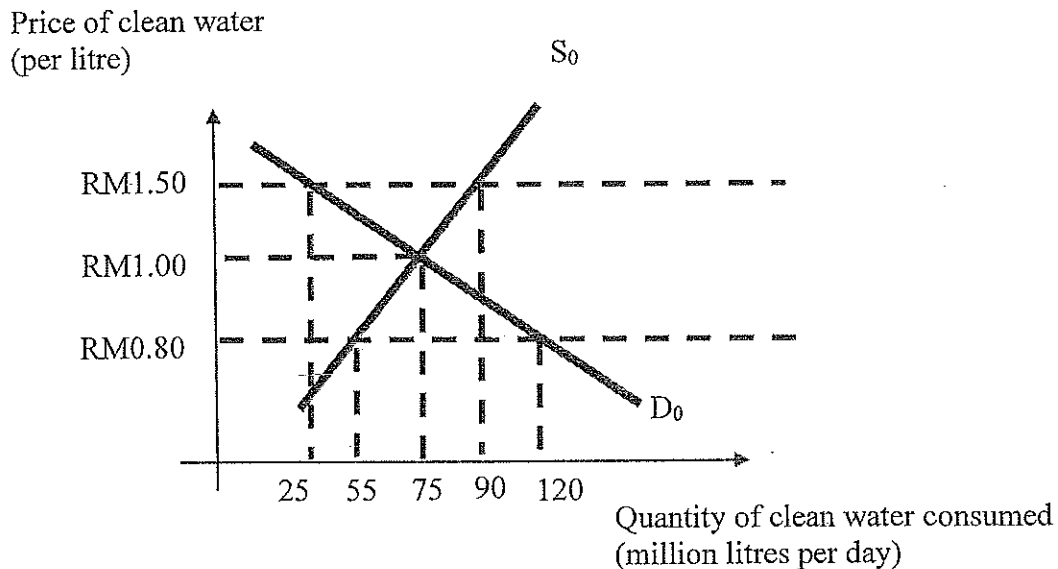
- (a) Based on the information given, complete the following table.

Q	P	TR	MR	MC	TC	Profits
1				5	30	
2					40	
3					60	
4					90	
5					130	

(12 marks)

- (b) State the firm's profit maximizing level of output and price. (2 marks)
- (c) Illustrate the profit maximizing position of Firm ABC with a MC-MR diagram. [Note: No explanations are needed.] (3 marks)
- (d) Briefly explain whether Firm ABC continues to earn the same amount of profits in the long run. (3 marks)

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



- (a) Calculate the total revenue earned by the clean water suppliers in Malaysia at the market equilibrium. (2 marks)
- (b) (i) Define price ceiling. (2 marks)
- (ii) Does the total revenue earned by the clean water suppliers change if the Malaysian government sets RM0.80 per litre as the price ceiling? If yes, calculate the new total revenue and briefly explain your answer. If no, briefly explain your answer. (3 marks)

- (iii) Does the total revenue earned by the clean water suppliers change if the Malaysian government sets RM1.50 per litre as the price ceiling? If yes, calculate the new total revenue and briefly explain your answer. If no, briefly explain your answer.

(3 marks)

- (c) Explain **THREE (3)** possible negative consequences that may occur if the Malaysian government sets a price ceiling for clean water.

(6 marks)

- (d) Explain why water is considered as a scarce resource.

(4 marks)

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

1. (a) How does a tomato farmer's total fixed costs and total variable costs change as more tomatoes are produced in the short run? Use diagrams and examples to support your answer. (10 marks)
- (b) Explain any **FOUR (4)** factors that contribute to the internal economies of scale. (10 marks)
2. (a) With real world examples, describe any **FOUR (4)** characteristics of a monopoly market. (10 marks)
- (b) Ferrywell is the only company that provides ferry service between Country A and Island B. The company owns 5 ferries and it provides 30 trips per day. Currently the company is earning super normal profits.
- (i) Illustrate the super normal profits of Ferrywell in a diagram. (4 marks)
- (ii) Why does Ferrywell earn supernormal profits? Explain any **THREE (3)** possible reasons. (6 marks)