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FINAL
Examination Paper

(COVER PAGE)

Session : APRIL 2018

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : August 01, 2018 (Wednesday)

Time : 2:00pm – 4:00pm 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

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Moderator : Dr Evelyn Shyamala Devadason

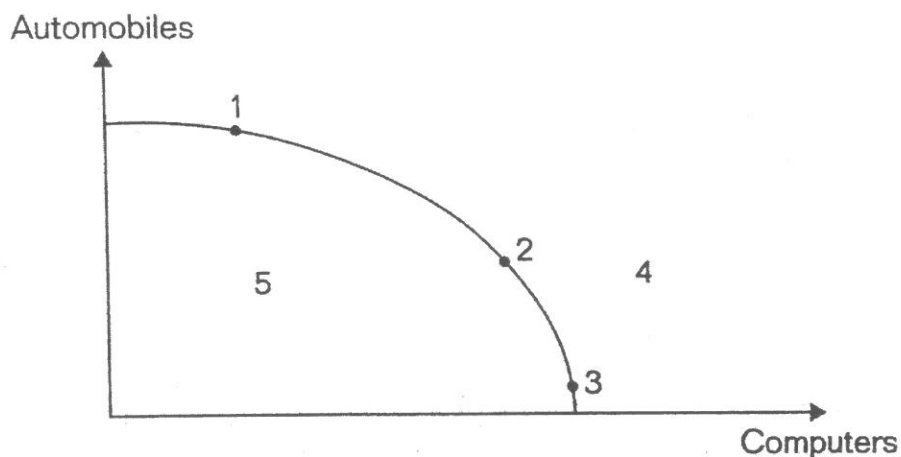
This paper consists of 10 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
ECO2103: PRINCIPLES OF MICROECONOMICS
FINAL EXAMINATION: APRIL 2018 SESSION

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

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

1. Economics is defined as
 - A. the study of small economics units which discuss how the prices of goods and factors of production, wages, rents and interest rate are determined
 - B. the study of a country's economic activities and main economic sectors which focus on the economy as a whole
 - C. a field of social science that studies the behaviour of individuals and society in the allocation of limited factors of production to fulfill man's unlimited wants
 - D. the economic activities which focus on the fulfillment of man's unlimited demand and wants with limited production quantities.



2. Moving from point 2 to point 3 requires
 - A. technology change.
 - B. a decrease in unemployment.
 - C. reducing the output of automobiles in order to increase the output of computers.
 - D. reallocating resources from the production of computers to the production of automobiles.

3. Subsidies given to vegetables farmers will result in a
- A. shift in the supply curve of vegetables.
 - B. shift in the demand curve for vegetables.
 - C. movement along the supply curve of vegetables.
 - D. movement along the demand curve of vegetables.
4. If the government fixes the price below the equilibrium price, we might expect
- A an excess of supply in the market
 - B quantity supplied to exceed quantity demanded
 - C quantity demanded to be equal to quantity supplied
 - D the emergence of black markets as individuals try to take advantage of unexploited opportunities
5. The following are the characteristics of a market in equilibrium, except:
- A there is no excess
 - B there is no surplus
 - C there is a tendency for price to change
 - D quantity demanded is equal to quantity supplied
6. If the price elasticity of supply for a Kate Spade purse is 0.65 and the price increases by 3%, then the quantity supplied for the Kate Spade purse will
- A. increase by 1.95.
 - B. decrease by 1.95.
 - C. increase by 0.217.
 - D. decrease by 0.217.
7. In the short run, product curves have all the following characteristics, except
- A. total product is at its maximum when marginal product equals zero.
 - B. total product begins to decrease when average product begins to decrease.
 - C. average product is at its maximum when average product equals marginal product.
 - D. when the average product equals the marginal product and both are positive, then total product must be rising.

8. Below are the relationships between total utility (TU) and marginal utility (MU) EXCEPT
- A. when TU is increasing, MU will be positive.
 - B. when TU is at its maximum, MU will be zero.
 - C. when TU is decreasing, MU will be negative.
 - D. when TU is decreasing, MU will be positive.
9. In the long run, a firm has _____
- A. insufficient time to enter or leave the market.
 - B. the ability to adjust its plant size.
 - C. at least one fixed input.
 - D. None of the above
10. The Law of diminishing marginal returns states that as more of a variable input is used, with other technology and input remaining fixed, the marginal product of the variable input will
- A. increase.
 - B. decline
 - C. remain the same
 - D. indeterminate
11. In the long run, a firm in a monopolistic competition market earns only normal profits. The firm will continuously _____ in order to earn supernormal profits.
- A. shut down
 - B. exit the industry
 - C. encourage new entrants
 - D. develop new products which differ from rivals
12. Which of the following characteristic is common for both the monopolistic competitive firm and monopoly?
- A. Downwards sloping demand curve
 - B. Large number of firms
 - C. Kinked demand curve
 - D. Barriers to entry

13. Explicit costs are different from implicit costs because explicit costs
- A. are relevant only in the short run.
 - B. are non-expenditure costs.
 - C. are 'out-of-pocket' costs.
 - D. are indirect costs.
14. The short run is a time period in which
- A. all factors of production are fixed.
 - B. the total of output is fixed.
 - C. at least one input is fixed.
 - D. all factors of production are variable.
15. Internal diseconomies of scale happen
- A. inside an organization and can reduce average costs
 - B. when those factors that raise the cost of production of a firm as the firm increase its output.
 - C. in an industry as a whole and bring advantages.
 - D. in an industry as a whole and bring disadvantages.
16. Subnormal profit means
- A. economic profit.
 - B. breakeven (no profit and no loss).
 - C. economic losses.
 - D. supernormal profit.
17. Price discrimination refers to
- A. the selling or charging of different prices to different buyers for same type of goods.
 - B. the selling or charging of different prices to different buyers for different types of goods.
 - C. the selling or charging of same price to different buyers for different type of goods.
 - D. the selling or charging of same prices to different buyers for same type of goods.

18. Which of the following does not characterize an oligopoly?
- A. produce only homogenous products.
 - B. restrict new entrants into the market.
 - C. firms are mutual interdependence.
 - D. few firms in the market but large in size.
19. If the marginal cost exceeds marginal revenue, a price-taker firm should _____.
- A. expand output.
 - B. reduce output.
 - C. lower its price.
 - D. Both A and C.
20. Which of the following does not represent income received by the factor of production?
- A. Rents paid for land
 - B. Profits paid for capital
 - C. Wages paid for labour
 - D. Dividends paid for capital

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

Question 1

(a) Complete the following table

| Labour | Land | Average Product | Marginal Product | Total Product |
|--------|------|-----------------|------------------|---------------|
| 1 | 5 | 15 | | |
| 2 | 5 | | 50 | |
| 3 | 5 | | 56 | 101 |
| 4 | 5 | 31.3 | | |
| 5 | 5 | | | 140 |
| 6 | 5 | | 9 | |
| 7 | 5 | | | 143 |

(7 marks)

(b) Sketch the Total Product, Average Product and Marginal Product curves in a graph. Indicate the stages of production.

(5 marks)

(c) Total product is maximized by the _____ worker.

(2 marks)

(d) At which stage of production will a rational producer choose to produce? State the range of workers.

(6 marks)

(Total: 20 marks)

Question 2

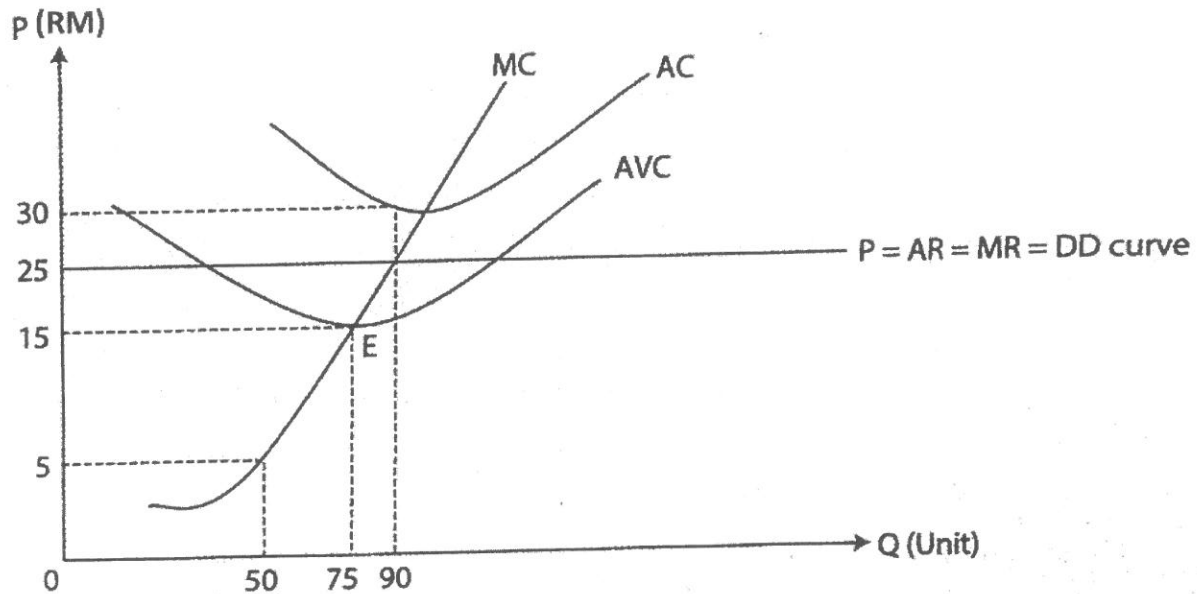
The following table shows the relationship between the price of product A and the quantity demanded for products A and B.

| Price of A (RM) | Quantity demanded for A (kg) | Quantity demanded for B (kg) | Consumers' income (RM) |
|-----------------|------------------------------|------------------------------|------------------------|
| 6.00 | 100 | 20 | 2000 |
| 6.50 | 90 | 30 | 1800 |
| 7.00 | 70 | 50 | 1600 |
| 7.50 | 40 | 70 | 1400 |
| 8.00 | 10 | 85 | 1200 |

- (a) Calculate the price elasticity of demand for A, if the price of A increases from RM7.00 to RM8.00 per kg, and indicate whether the demand is elastic or inelastic? (4 marks)
- (b) Calculate the cross elasticity of demand for B when the price of A decreases from RM7.50 to RM6.50. Are A and B complements or substitutes? (6 marks)
- (c) Calculate the income elasticity of demand for A and B when the income of consumers increases from RM1400 to RM1800. What types of products are A and B? (6 marks)
- (d) List **TWO (2)** factors that can influence the price elasticity of demand. (4 marks)

(Total: 20 marks)

Question 3



Where MC = Marginal cost; AC = Average Cost ; AVC = Average Variable Cost; AR= Average Revenue; MR= Marginal Revenue and P = Price .

Based on the figure above answer the following questions:

- What type of market structure is the firm operating in? Why? (2 marks)
- Determine the profit maximizing price and quantity. (4 marks)
- Calculate the total profit or loss of the firm. (6 marks)
- Identify the type of profit earned by this firm. Explain. (4 marks)
- List and explain any **TWO (2)** characteristics of the firm. (4 marks)

(Total: 20 marks)

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

Question 1

- (a) Define the law of demand and explain the **THREE (3)** factors influencing demand. (11 marks)
- (b) Shortages and surpluses are temporary market conditions in freely operating markets. With the aid of diagrams, explain what causes each condition and how temporary conditions can return to the equilibrium state. (9 marks)

(Total: 20 marks)

Question 2

- (a) Using an indifference curve and a budget line, explain how a consumer could achieve an equilibrium level. (10 marks)
- (b) Explain **FOUR (4)** causes of market failure. (10 marks)

(Total: 20 marks)

~ The End ~
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