

FINAL
Examination Paper

(COVER PAGE)

Session : AUGUST 2018

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : 13 December 2018, (Thursday)

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

Examiner(s) : Nageswari, Lee Yin Lan, Yee Aik Phoay, Winnie Nasir, and Remeedass

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: AUGUST 2018 SESSION

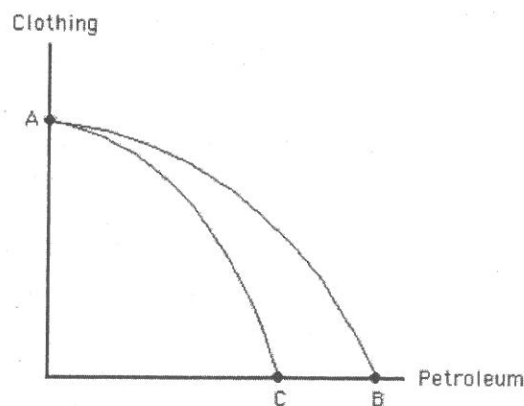
Section A: (40 marks)

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

1. Economics may best be defined as the:
 - A. interaction between macro and micro considerations.
 - B. social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.
 - C. use of policy to refute facts and hypotheses
 - D. how to avoid having to make trade-offs

2. Microeconomics is concerned with _____.
 - A. the economy as a whole
 - B. the electronics and manufacturing industries
 - C. the study of individual economic behavior
 - D. the interactions within the entire economy

3.



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

- A. Technical improvements in both petroleum and clothing production.
- B. A productive improvement in clothing production that has no effect on petroleum production.
- C. A decrease in the size of the labor force that can produce either petroleum products or clothing.
- D. Major oil reserves are discovered off the coast of Africa.

4. Which of the following might lead to a decrease in the demand for a product that can be stored?
- A. A fall in the price of a complement.
 - B. A rise in consumer incomes and the product is an inferior product.
 - C. An increase in the number of buyers.
 - D. An expected rise in price of the good.
5. If input prices increase, all else equal, _____.
- A. quantity supplied will decrease
 - B. supply will increase
 - C. supply will decrease
 - D. demand will decrease
6. An increase 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 a rightward shift of the supply curve leads to a 6 percent decrease in the price and a 5 percent increase in the quantity demanded, the price elasticity of demand is _____.
- A. 0.83
 - B. 0.4
 - C. 0.67
 - D. 1.25
8. The more 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. The law of increasing opportunity costs is reflected in a production possibilities curve that is:
- A. straight line.
 - B. concave to the origin.
 - C. convex to the origin.
 - D. law of diminishing return.

10.

Product A		Product B	
Quantity	Marginal Utility	Quantity	Marginal Utility
1	32	1	24
2	28	2	20
3	24	3	16
4	20	4	12
5	16	5	8

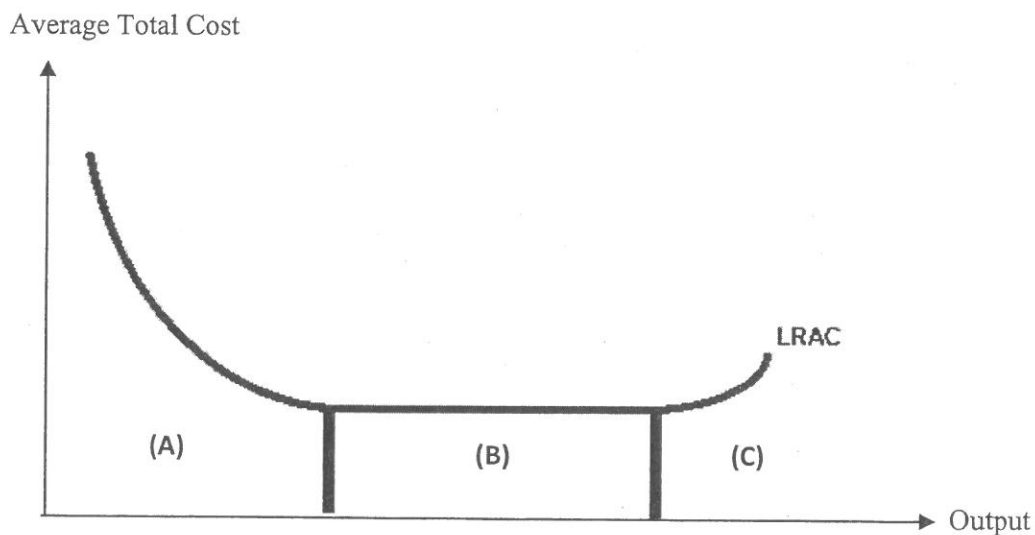
The table above shows the marginal utility schedule for product A and product B for a hypothetical consumer. The price of A is RM4 and the price of product B is RM2. The income of the consumer is RM20. If the consumer can only buy product A, how much will the consumer buy and what will the total utility be?

- A. 4X and 20
- B. 4X and 104
- C. 5X and 16
- D. 5X and 120

11. When a 4th glass of orange juice 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.



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

- A. (A)
- B. (B)
- C. (C)
- D. None

13. Diseconomies of scale are NOT encountered until _____.
- A. a considerably small scale of output has been achieved
 - B. a considerably average scale of output has been achieved
 - C. a considerably large scale of output has been achieved
 - D. a considerably minimum scale of output has been achieved
14. Suppose that the note pad industry is perfectly competitive. Also assume that the market price for note pad is RM10 per note pad. The demand curve faced by each firm in the industry is:
- A. A horizontal line at \$10 per note pad
 - B. A vertical line at \$10 per note pad
 - C. The same as the market demand curve for note pad
 - D. Always higher than the firm's marginal curve.
15. In order for the law of diminishing returns to be present, we must have:
- A. at least one factor of production to be fixed.
 - B. output decreasing as more labors are hired.
 - C. all the inputs are variable input.
 - D. simultaneous changes in labor and capital.
16. Monopoly price can be reduced and output increased through _____.
- A. price discrimination rules
 - B. market demand
 - C. government regulations
 - D. strike
17. Which of the following best describes the efficiency of monopolistically competitive firms?
- A. Allocatively efficient but productively inefficient.
 - B. Allocatively inefficient but productively efficient.
 - C. Both allocatively efficient and productively efficient.
 - D. Neither allocatively efficient nor productively efficient.
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 perfect competition firm _____
- A. increases at an increasing rate as output expands
 - B. lies below the firm's 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 followings are ways to cope with negative externalities except;
- A. Direct controls.
 - B. Liability rules and lawsuits
 - C. Government provision
 - D. Tax on producers.

Section B: (40 marks)

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

Question 1

- (a) The people of Country W have 50 hours of labor a day that can be used to produce clothes and shoes. The table shows the maximum quantity of either clothes or shoes that Country W can produce with different quantities of labor.

Labour	Clothes		Shoes
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 clothes and 50 units of shoes attainable and efficient? Explain your answer. (4 marks)
- (ii) With a production of 50 units of clothes and 50 units of shoes, do the people of Country W face a tradeoff? Explain your answer. (2 marks)
- (b) Consider a simple economy producing two goods: CD and TV. The following table gives several points on the economy's production possibilities.

CD (1000's of units /year)	TV (1000's of units/ year)
0	60
1	50
2	30
3	0

- (i) Use graph paper to illustrate the economy's production possibility frontier. (4 marks)
- (ii) Briefly explain why the production possibility frontier is downward sloping? (4 marks)
- (iii) Suppose the economy is currently producing 2000 CD and 30,000 units of TV. What is the opportunity cost of producing additional 25,000 units of TV? (2 marks)

- (iv) From research carried out in the lab, it is that of, as per the latest technology the economy is able to produce twice of that of TV production. Explain carefully, using an appropriate diagram to illustrate your answer (*use the same graph paper to show your illustration*).
- (4 marks)

Question 2

- (a) The price of mineral water increased from \$1.90 to \$2.10 a bottle, and the quantity demanded decreased 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 for mineral water. (2 marks)
- (iii) Calculate the price elasticity of demand for mineral water. Is the demand for mineral water elastic or inelastic? (3 marks)
- (b) When the price per carton of Coco Cola falls from RM16 to RM14, the quantity demanded increases from 200 to 300 cartons per month. On the other hand, the demand for Pepsi falls from 250 to 200 cartons per month.
- (i) Calculate the price elasticity of demand using the mid-point formula. (3.5 marks)
- (ii) If the price of the Coco Cola increases, what will happen to the total revenue of Coco Cola? Explain. (2 marks)
- (iii) Calculate the cross elasticity of demand between Coco Cola and Pepsi. Based on the answer, explain the relationship between the two. (3.5 marks)
- (c) The table below shows the price and quantity demanded for oranges at various prices.

Price /kg	Quantity demanded in kg.
12.50	3000
11.50	4400
10.50	6800

- (i) Calculate the price elasticity of demand for oranges when price the increases from \$11.50 per kg to \$12.50 per kg by using the mid-point method. Interpret your answer.

(2 marks)

- (ii) Calculate the cross price elasticity for oranges if a 20% decrease in price of apple causes the demand for orange juice to decrease from 5000kg to 3000kg. Interpret your answer.

(2 marks)

Question 3

- (a) (i) Differentiate between the terms 'short run' and 'long run' in the production of a firm.

(2 marks)

- (ii) What is marginal product and why does it diminish as the number of workers increase?

(2 marks)

- (b) Consider the following production function for a car manufacturer, 'New Era'.

Number of workers	0	1	2	3	4	5	6	7	8	9	10
Output	0	10	25	40	50	59	61	62	62	62	60
Marginal Product											

- (i) Fill in the missing values for the marginal product. (5 marks)

- (ii) When does the law of diminishing marginal product set in? (1 mark)

- (c) "New Era" faces the following cost schedule:

Quantity (Q)	Fixed Cost (FC) RM	Variable Cost (VC) RM	Total Cost (TC) RM	Average Variable Cost (AVC) RM	Average Fixed Cost (AFC) RM	Average Cost (AC) RM
0			50			
1			76			
2			96			
3			104			
4			110			
5			116			
6			126			
7			140			
8			164			
9			198			

Complete the table above.

(10 marks)

Section C: (20 marks)

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

Question 1

- (a) Explain **FOUR (4)** types of production factors with appropriate examples. (8 marks)
- (b) Distinguish between positive economics and normative economics with appropriate examples. (6 marks)
- (c) Define law of demand and law of supply. Using appropriate diagrams, explain how the demand curve and supply curve illustrates the related laws. (6 marks)

Question 2

- (a) Explain the law of diminishing marginal utility with an appropriate diagram. (6 marks)
- (b) Explain with an illustration of diagrams the short- run equilibrium of a firm under a perfect competition market. (9 marks)
- (c) List and explain any **TWO (2)** types of barriers of entry imposed by the monopolist. (5 marks)

~ The End ~

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