

 **INTI** International  
University & Colleges

**FINAL**  
Examination Paper

(COVER PAGE)

Session : JANUARY 2018

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : 6 March, 2018 (Tuesday)

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 out of **THREE (3)** questions.

**SECTION C:** Answer any **ONE (1)** question out of **TWO (2)** questions.

**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) : Hazrina Johari and Grace Jelaja

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: JANUARY 2018 SESSION

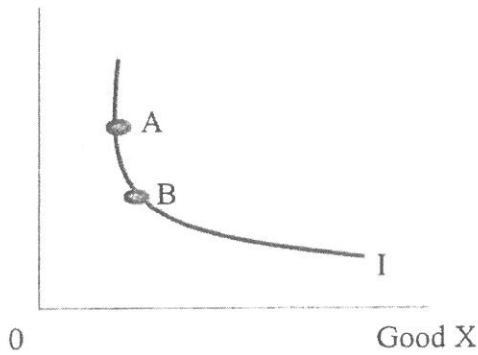
**Section A: (40 marks)**

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

1. Microeconomics is concerned with
  - A. the economy as a whole.
  - B. the relationship between inflation and unemployment.
  - C. the study of individual economic behavior.
  - D. the interactions within the entire economy.
  
2. Which of the following will not shift a country's production possibilities frontier outward?
  - A. An advance in technology.
  - B. An increase in the labor force.
  - C. An increase in the capital stock.
  - D. A reduction in unemployment.
  
3. In a mixed economy, resources are used as a result of
  - A. the decisions of consumers only.
  - B. the decisions of firms only.
  - C. the decisions of consumers and firms.
  - D. the decisions of consumers, firms and government.
  
4. Which of the following is a positive statement?
  - A. Driving speeds should be lowered so that fewer accidents will occur.
  - B. When per capita income falls, fewer meals are consumed at restaurants.
  - C. The minimum wage is too low; college students deserve a raise.
  - D. Cigarette sales should be made illegal in order to reduce the incidence of cancer.
  
5. Which of the following might NOT lead to an increase 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.

6. If a rise in supply exceeds a rise in demand, then we should expect
  - A. the equilibrium price and quantity levels to rise.
  - B. the equilibrium price to rise while the equilibrium quantity will decline.
  - C. the equilibrium price to fall while the equilibrium quantity will rise.
  - D. the equilibrium price and quantity levels to decline.
  
7. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect
  - A. the supply of flour to be unaffected.
  - B. the supply of flour to decrease.
  - C. the supply of flour to increase.
  - D. the demand for flour to decrease.
  
8. A 10 percent increase in the quantity of spinach demanded results from a 20 percent decline in its price. The price elasticity of demand for spinach is
  - A. 0.5.
  - B. 20.0.
  - C. 2.0.
  - D. 10.0.
  
9. Positive cross-elasticities suggest that goods are ..... and negative cross-elasticities that goods are .....
  - A. substitutes, inferior
  - B. normal, complements
  - C. substitutes, complements
  - D. normal, inferior
  
10. When a price ceiling is imposed in a market,
  - A. a persistent shortage results.
  - B. a persistent surplus results.
  - C. sellers of the product are made better off.
  - D. quantity supplied is greater than the quantity demanded.
  
11. Normally, as the quantity of a good consumed increases, marginal utility
  - A. decreases and total utility increases.
  - B. decreases and total utility remains the same.
  - C. increases and total utility increases.
  - D. increases and total utility remains the same.

12. Good Y



Based on the indifference curve above, what can you tell about the utility of points A and B?

- A.  $A > B$ .
  - B.  $B > A$ .
  - C.  $B = A$ .
  - D. both goods are priced similarly.
13. Accounting profits
- A. are economic profits.
  - B. are similar to pure economic rents.
  - C. equal the difference between total revenues and explicit costs.
  - D. equal the difference between total revenues and the sum of implicit and explicit costs.
14. The main difference between the short run and the long run is that
- A. firms earn zero profits in the long run.
  - B. the long run always refers to a time period of one year or longer.
  - C. in the short run, one or more inputs is fixed.
  - D. in the long run, only one variable can be fixed.
15. The law of diminishing returns for a manufacturing plant of a fixed size implies that, eventually employing one
- A. more worker will increase output per worker.
  - B. more worker will decrease output per worker.
  - C. less worker will increase output per worker.
  - D. less worker will not affect output per worker.

16. The level of fixed costs of production for a firm
- A. can increase in the short run.
  - B. is a function of the level of variable costs.
  - C. is low in proportion to variable costs in the short run.
  - D. is independent of the level of output in the short run.
17. Which is true under conditions of pure competition?
- A. There are differentiated products.
  - B. The market demand curve is perfectly elastic.
  - C. No single firm can influence the market price by changing its output.
  - D. Firms that cannot make pure or economic profits go bankrupt.
18. Assume that in a monopolistically competitive industry, firms are earning economic profit. This situation will
- A. reduce the excess capacity in the industry as firms expand production.
  - B. attract other firms to enter the industry because the barriers to entry are low.
  - C. cause firms to standardize their product to limit the degree of competition.
  - D. make the industry allocatively efficient as each firm seeks to maintain its profits.
19. Mutual interdependence would tend to limit control over price in which market model?
- A. Monopolistic competition
  - B. Pure competition
  - C. Pure monopoly
  - D. Oligopoly
20. When negative externalities are present in a market
- A. private costs will be greater than social costs.
  - B. social costs will be greater than private costs.
  - C. only government regulation will solve the problem.
  - D. the market will not be able to reach any equilibrium.

**Section B: (40 marks)**

**Instruction:** This section consists of **THREE (3)** questions. Answer only **TWO (2)** questions in the answer script provided.

**Question 1**

Suppose the equations for demand and supply for good  $X$  are given below respectively. All transactions are done in RM.

$$P = 40 - Q$$
$$P = Q$$

Based on these equations,

- (a) Find the value of equilibrium price and quantity. (4 marks)
- (b) Sketch the demand and supply curve in one diagram. Make sure to label the intercepts and equilibrium price and quantity. (4 marks)
- (c) Suppose more taxes were to be imposed by the government towards the production of good  $X$ . Show this effect graphically and label the new equilibrium price and quantity. (4 marks)
- (d) List and elaborate on **TWO (2)** factors that could cause demand for good  $X$  to fall. (4 marks)
- (e) List and elaborate on **TWO (2)** factors that could cause supply for good  $X$  to fall. (4 marks)

**Question 2**

The data below shows production cost for a company.

Quantity of Output	Total Cost (RM)	Total Fixed Cost (RM)	Total Variable Cost (RM)	Marginal Cost (RM)	Average Total Cost (RM)	Average Fixed Cost (RM)	Average Variable Cost (RM)
0	60						
1	80						
2	115						
3	155						
4	210						

- (a) Fill in the blanks in the table above. (15 marks)
- (b) Is the firm operating in the short run or long run period? Explain. (2 marks)
- (c) Explain the main difference between implicit and explicit costs. Provide an example for each one of them. (3 marks)

**Question 3**

The following table gives information on the price, quantity, and total cost of production for a monopoly firm.

Price (RM)	Quantity (Units)	Marginal Revenue (RM)	Total Cost (RM)	Marginal Cost (RM)
5	0		3	
4	5		8	
3	10		18	
2	15		33	
1	20		53	
0	25		78	

- (a) List **THREE (3)** main characteristics of a monopoly. (3 marks)
- (b) Calculate Marginal Revenue and Marginal Cost. (6 marks)
- (c) Determine the profit maximizing output and price. (3 marks)
- (d) Calculate the profit the monopoly will earn at the profit-maximizing price. (2 marks)
- (e) With the aid of a graph, explain why a monopoly firm is less desirable than a perfectly competitive firm. (6 marks)

**Section C (20 marks)**

**Instructions:** This section consists of **TWO (2)** questions. Answer only **ONE (1)** question in the answer script provided.

**Question 1**

- (a) Identify whether the statements below refer to microeconomics or macroeconomics. Explain.
- (i) Siva is contemplating whether to go to a futsal match or have dinner with his wife.  
(2 marks)
  - (ii) The hike in the unemployment rate is causing fresh university graduates to worry about their future in the job market.  
(2 marks)
  - (iii) Sarah is babysitting her two toddlers at home while her husband works over the weekend.  
(2 marks)
  - (iv) The car industry in Malaysia has improved its productivity due to the adoption of a new technology from Europe.  
(2 marks)
  - (v) All football players in Malaysia will receive a RM5,000 reward each for winning the match in Vietnam yesterday.  
(2 marks)
- (b) Identify the type of economic system (command, free market or mixed) for each of the situation below. Explain.
- (i) They allow the laws of supply and demand to control the economy.  
(2 marks)
  - (ii) The government may own some industries, while other industries are privately owned.  
(2 marks)
  - (iii) All resources and businesses are owned by the government.  
(2 marks)
  - (iv) Manufacturers of industrial goods control the resources.  
(2 marks)
  - (v) This economic system is practiced to promote individual and social rights.  
(2 marks)

**Question 2**

- (a) *Smoking is bad for health and might affect the health of the other people around.*  
Name and explain this type of externality. (4 marks)
- (b) Sketch the type of externality in a graph, explaining briefly the type of externality. (6 marks)
- (c) If a firm expands its operations in the long-run, explain if the expansion will reduce the per unit cost of production of the firm. Use a graph to explain your answer. (10 marks)

*~ The End ~*  
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