



RESIT
Examination Paper
(COVER PAGE)

Session : January 2013

Programme : Diploma in Business

Course : ECO2103 : PRINCIPLES OF MICROECONOMICS

Date of Examination : March 5, 2013

Time : 8:00am – 10:00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet

provided. All questions carry equal marks.

Materials permitted : Nil

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Examiner(s) : Ms. Nageswari Parmasivam, Sara Seah Peng Teng,
Komathi Kalimuthu.

Moderator : Associate Professor Dr. Evelyn S. Devadason

This paper consists of 6 printed pages, including the cover page

INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS PROGRAMME (DIB)
 ECO2103: PRINCIPLES OF MICROECONOMICS
 RESIT EXAMINATION: JANUARY 2013 SESSION

Instructions : This paper consists of SIX (6) questions. Answer any FOUR (4) questions in the answer booklet provided. All questions carry equal marks

Question 1

(a) Distinguish between the following terms. Provide an example for each.

- (i) Normative economics vs Positive economics (5 marks)
- (ii) Microeconomics vs Macroeconomics (5 marks)

(5 marks)

(b) Briefly explain with an illustration of diagram THREE (3) different shapes of PPC. (9 marks)

(6 marks)

(c) List and discuss any THREE (3) advantages of mixed economy. (6 marks)

Question 2

(a) A survey indicates that chocolate is American's favorite ice-cream flavor. For each of the following, indicate the possible effects in demand, supply or both as well as equilibrium price and quantity of chocolate ice-cream.

(i) A severe drought in the Midwest causes dairy farmers to reduce the number of milk producing cattle in their herds by a third. These dairy farmers supply cream that is used to manufacture chocolate ice-cream. (5 marks)

(ii) A new report by the American Medical Association reveals that chocolate does, in fact, have significant health benefits. (5 marks)

(iii) The discovery of cheaper synthetic vanilla flavoring lowers the price of vanilla ice-cream. (5 marks)

(iv) New technology for mixing and freezing ice-cream lowers manufacturers' costs of producing chocolate ice-cream. (5 marks)

- (b) Distinguish between changes in quantity demand and changes in demand. (5 marks)

Question 3

- (a) Calculate the elasticity for the following;
- (i) After Chelsea's income increased from \$12,000 to \$18,000 a year, her purchases of CDs increased from 10 to 40 CD a year. Calculate Chelsea's income elasticity of demand for CDs, using mid-point method. (4 marks)
- (ii) As the price of margarine rises by 20%, a manufacturer of baked good increases its quantity of butter demanded by 5%. Calculate the cross-price elasticity of demand between butter and margarine. Are butter and margarine substitutes or complements for the manufacturer? (6 marks)
- (iii) Using the mid-point method, calculate the price elasticity of supply for web-design services when the price per-hour rises from \$100 to \$150 and the number of hours transacted increases from 300,000 hours to 500,000. Is supply elastic, inelastic or unit-elastic? (5 marks)
- (b) Indicate whether the following statements are true or false.
- (i) If the demand for milk rose, then, in the long-run, milk drinkers would be better off if supply was elastic rather than inelastic. (2 marks)
- (ii) Long-run price elasticity of supply is generally larger than short-run price-elasticity of supply. As a result, the short-run supply curves are generally flatter than the long-run supply curve. (2 marks)

(c) Use an elasticity concept to explain each of the following observations.

(1) Cement is the primary building material in Mexico. After new technology makes cement cheaper to produce, the supply curve for the Mexican cement industry becomes relatively flatter.

(3 marks)

(ii) Some goods that were once considered luxuries, like a telephone, are now considered virtual necessities. As a result, the demand curve for telephone services has become steeper over time.

(3 marks)

Question 4

(a) The table below shows Bernie's utilities from notebooks and Beyonce CDs. The price of a notebook is \$5, the price of a CD is \$10, and Bernie has \$50 of income to spend.

Qty of notebooks	TU from notebooks	Qty of CDs	TU from CDs
0	0	0	0
2	70	1	80
4	130	2	150
6	180	3	210
8	220	4	260
10	250	5	300

(i) Calculate the marginal utility of each notebook and the marginal utility of each CD. Then calculate the marginal utility per dollar spent on note books and the marginal utility per dollar spent on CDs.

(8 marks)

(ii) Which consumption bundles of notebooks and CDs can Bernie consume if he spends all his income?

(5 marks)

(b) Distinguish with numerical example between technical and economic efficiency.

(8 marks)

(c) Differentiate between short-run and long-run. Provide ONE (1) example for each.

(4 marks)

Question 5

- (a) The accompanying table shows a car manufacturer's total cost of producing cars.

Qty of cars	Total Cost
0	\$500,000
1	540,000
2	560,000
3	570,000
4	590,000
5	620,000
6	660,000
7	720,000
8	800,000
9	920,000
10	1,100,000

- (i) What is this manufacturer's fixed cost?
(1 mark)
- (ii) For each level of output, calculate the variable cost (VC), Average Variable Cost (AVC), Average Total Cost (ATC), Average Fixed Cost (AFC) and Marginal Cost (MC).
(10 marks)
- (iii) Explain the relationship between ATC and MC with an illustration of a diagram.
(5 marks)
- (b) Don owns a small concrete-mixing company. He has estimated the costs shown in the accompanying table based on estimates of the number of orders his company will receive per week.

Quantity of trucks	Variable Costs			
	Fixed Cost	20 orders	40 orders	60 orders
2	\$6000	\$2000	\$5000	\$12,000
3	7000	1,800	3,800	10,800
4	8000	1,200	3,600	8,400

- (iv) For each level of fixed cost, calculate Don's total cost and average cost for producing 20, 40 and 60 orders per week.
(9 marks)

Question 6

- (a) Briefly explain any **FOUR (4)** characteristics of perfect competitive market. (8 marks)
- (b) Explain with an illustration of a diagram, the profit-maximizing quantity of output using marginal analysis. (6 marks)
- (c) 'Monopolistic competitive firm only earns normal profit in the long run'. Explain with an illustration of a diagram. (5 marks)
- (d) List and explain any **THREE (3)** characteristics of oligopoly firm. (6 marks)

-THE END-

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