



FINAL
Examination Paper

(COVER PAGE)

Session	:	<u>January 2015</u>
Programme	:	<u>Diploma in Business (DIB) Diploma in Finance (DIF) Diploma in Entrepreneurship (DENT)</u>
Course	:	<u>ECO2103 : PRINCIPLES OF MICROECONOMICS</u>
Date of Examination	:	<u>March 10, 2015</u>
Time	:	<u>11:00am – 1:00pm</u> Reading Time : <u>Nil</u>
Duration	:	<u>2 Hours</u>
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	:	<u>Non-Programmable Calculator</u>
Materials provided	:	<u>Nil</u>
Examiner(s)	:	<u>Mr. Borhan Abdullah, Anura Azlan Shah.</u>
Moderator	:	<u>Associate Professor Dr. Evelyn S. Devadason</u>

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

INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS (DIB)
ECO2103: PRINCIPLES OF MICROECONOMICS
FINAL EXAMINATION: JANUARY 2015 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) Why is economics like a science? (4 marks)
- (b) Suppose country X produces milk and computer.
- (i) Draw and explain the production possibilities curve for country X. (5 marks)
- (ii) Use the production possibility curve to explain the term of efficiency. (5 marks)
- (iii) Using a graph, show how a disease that kills half of the cow population affects the production possibility curve. (5 marks)
- (c) What is the difference between a positive and a normative statement? Give an example of each. (6 marks)

Question 2

- (a) What is inferior good? Give an example. (2 marks)
- (b) As the price of good X rises, the demand for good Y falls. Explain what this relationship implies about the two goods. (3 marks)
- (c) Using a diagram, explain the law of supply. What does the law of supply imply about the shape of the supply curve? (5 marks)

- (d) Suppose the demand schedule for hamburger can be represented as

$$Q_d = 380 - 20P,$$

$$Q_s = -120 + 30P$$

Where,

Q_d = Quantity demanded

Q_s = Quantity supplied

P = Price

Calculate the equilibrium price and quantity in the market for hamburger.

(3 marks)

- (e) Explain **FOUR (4)** factors that would shift the demand curve.

(12 marks)

Question 3

- (a) Define the price elasticity of demand.

(3 marks)

- (b) Explain the relationship between total revenue and the price elasticity of demand.

(6 marks)

- (c) Explain why the price elasticity supply might be different in the long run and short run.

(6 marks)

- (d) Recently the floods in Kelantan destroyed many hectares of chili's plantation.

- (i) Farmers whose crops were destroyed by the floods were much worse off, but farmers whose crops were not destroyed benefited from the flood. Why?

(2 marks)

- (ii) What information would you need about the market of chilies to assess whether farmers as a group were hurt or helped by the floods?

(2 marks)

(e) Suppose your demand schedule for T-shirts is as follows

Price (RM)	Quantity Demanded (Income = RM4000)	Quantity Demanded (Income = RM5000)
5	20	25
8	16	22
11	12	19
14	8	16
17	4	13

(i) Use the midpoint method to calculate your price elasticity of demand as the price of T-shirts increases from RM5 to RM8 if (a) your income is RM4000 and (b) your income is RM5000. (3 marks)

(ii) Calculate your income elasticity of demand as your income rises from RM4000 to RM5000 if (a) the price is RM14 and (b) the price is RM17 (3 marks)

Question 4

(a) Define utility carefully. How does it differ from satisfaction? Explain. (6 marks)

(b) Complete the table below and explain the law of diminishing marginal utility. How is this related to the law of demand? Explain.

Segments	A						B	C		
Unit of Commodity	1	2	3	4	5	6	7	8	9	10
Total Utility	20	25			34		35	34	32	
Marginal Utility	-		4			1				-3

(11 marks)

(c) What is the diamond-water paradox? Use a diagram to explain this paradox which originated in Adam Smith. (8 marks)

Question 5

- (a) Farmer Pak Abu gives *silat* lessons for RM20 an hour. One day, he spends 10 hours planting RM100 worth of seeds on his farm.
- What opportunity cost has he incurred? (1 mark)
 - What cost would his accountant measure? (1 mark)
 - If this seeds will yield RM200 worth of crops, does Pak Abu earn an accounting profit? Does he earn economic profit? (2 marks)
- (b) Marie Sdn. Bhd produces biscuits. Here is the relationship between number of workers and output(in Kilograms of biscuits) in a given day:

Workers	Output	Marginal Product	Total Cost	Average Total Cost	Marginal Cost
0	0				
1	28				
2	50				
3	67				
4	80				
5	90				
6	95				
7	96				

- Fill in the column of marginal products. What pattern do you see? How do you explain this pattern? (4 marks)
 - A worker cost RM30 a day, and the firm has fixed cost of RM10. Use this information to fill in the column for total cost. (3 marks)
 - Fill in the column for average total cost. What pattern do you see? (3 marks)
 - Fill in the column for marginal cost. What pattern do you see? (3 marks)
- (c) Define economies of scale and diseconomies of scale. Draw and explain why they occur? (8 marks)

Question 6

- (a) The market for fertilizer is perfectly competitive. Firms in the market are producing output, but they are currently making economic losses.
- (i) How does the price of fertilizer compare to the average total cost, average variable cost, and the marginal cost of producing fertilizer? (2 marks)
- (ii) Draw two graphs, to explain the present situation for one particular firm in the market. (5 marks)
- (b) Suppose that BUKU Company has a monopoly in the sale of bookshelves and faces the following demand schedule.

Price	Quantity Demanded
40	0
35	10000
30	20000
25	30000
20	40000
15	50000
10	60000
5	70000
0	80000

The firm has fixed cost of RM60000. The marginal cost of each bookshelf is a constant at RM15 per bookshelf.

- (i) Compute total revenue, total cost, and profit at each quantity. What quantity would a profit maximizing manufacturer choose? What price would it charge? (12 marks)
- (ii) Graph the marginal revenue, marginal cost, and demand curves. At what quantity do the marginal cost and marginal quantity curves cross? What does this signify? (4 marks)
- (iii) In your graph shade the deadweight loss. Explain what it means? (2 marks)