



FINAL  
Examination Paper

(COVER PAGE)

Session : January 2016

Programme : Diploma In Business (DIB)

Course : ECO2103: Principles of Microeconomics

Date of Examination : March 9, 2016 (Wednesday)

Time : 8.00am – 10.00am 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

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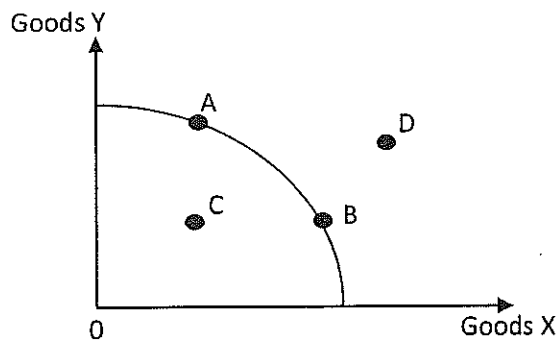
*This paper consists of 10 printed pages, including the cover page*

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
 ECO2103: PRINCIPLES OF MICROECONOMICS  
 FINAL EXAMINATION: JANUARY 2016 SESSION

SECTION A (40%)

**Instructions:** This section consists of 20 questions. Answer **ALL** questions in the OMR sheet provided below. **Each question carries 2 marks.**

1. The following diagram illustrates the production possibility curve for Malaysia.



The following statements are true **EXCEPT**?

- A. Point B is more efficient than Point A.
  - B. Point D is unattainable because of scarcity.
  - C. Point C is inefficient.
  - D. Point A is full employment.
2. Statement one  
 "The Malaysia consumer price index will increase about 10% next month"
- Statement two  
 "The Malaysian government should cushion the impact of goods and service tax (GST)"
- Which of the above statements are positive and normative?
- A. Statement one is positive and statement two is normative.
  - B. Statement one is normative and statement two is positive.
  - C. Both statements are normative.
  - D. Both statements are positive.

3. Which of the following is **TRUE** about the free market economy system
- I. Price is set by market mechanism.
  - II. Producers decide what good to produce based on consumers demand.
  - III. Government intervention is allowed in the market.
  - IV. Freedom of choices.
- A. I, II, III.
  - B. II, III, IV.
  - C. I, II, IV.
  - D. I, III, IV.
4. Which of the following demonstrates the law of demand?
- A. Relative to last month, Jon buys more pretzels at \$1.50 per pretzel since he got a raise at work this month.
  - B. Melissa buys fewer muffins at \$0.75 per muffin than at \$1 per muffin, other things equal.
  - C. Dave buys more donuts at \$0.25 per donut than at \$0.50 per donut, other things equal. The value of final goods and services produced domestically.
  - D. Kendra buys fewer Snickers at \$0.60 per Snickers since the price of Milky Ways fell to \$0.50 per Milky Way.
5. During a certain period, 10,000 units of a normal good are sold at a price of 20 cents. During a later period, 12,000 units are sold at a price of 20 cents. Which of the following events could explain this change?
- A. A reduction in consumers' income
  - B. An increase in the cost of raw materials
  - C. An increase in the price of a substitute in consumption
  - D. An increase in the productivity of the workers
6. When supply decreases, what will happen to price (P) and quantity (Q) compared to the original equilibrium of price and quantity?
- A. P will decrease, Q will decrease
  - B. P will increase, Q will decrease
  - C. P will decrease, Q will increase
  - D. P will increase, Q will increase

7. Suppose roses are currently selling for \$40.00 per dozen, while the equilibrium price of roses is \$30.00 per dozen. We would expect a
- Shortage to exist and the market price of roses to increase.
  - Shortage to exist and the market price of roses to decrease.
  - Surplus to exist and the market price of roses to increase.
  - Surplus to exist and the market price of roses to decrease.
8. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is:
- Negative and therefore the good is an inferior good.
  - Negative and therefore the good is a normal good.
  - Positive and therefore the good is a normal good.
  - Positive and therefore the good is an inferior good.
9. When price elasticity of demand ( $E_d$ ) is elastic, it means that \_\_\_\_\_. Any increasing in price would lead to \_\_\_\_\_.
- Percentage changes in price is less than percentages change in quantity, decreasing in total revenue.
  - Percentage changes in price is less than percentages change in quantity, increasing in total revenue.
  - Percentage changes in price is more than percentages change in quantity, increasing in total revenue.
  - Percentage changes in price is more than percentages change in quantity, decreasing in total revenue.
10. The theory of utility examines:
- The determination of output in competitive markets.
  - The satisfaction experienced by consumer of a good.
  - How consumers select inputs into manufacturing production processes.
  - The determination of prices in competitive markets.

11. An example of a fixed cost in production would be:
- A. Wages.
  - B. Rental.
  - C. Interest rate.
  - D. Raw material needed in production.
12. When the marginal product of an input declines as the quantity of that input increases, the production function exhibits:
- A. Increasing returns to scale.
  - B. Decreasing returns to scale.
  - C. Diminishing total product.
  - D. Diminishing marginal product.
13. Suppose a certain firm is able to produce 165 units of output per day when 15 workers are hired. The firm is able to produce 176 units of output per day when 16 workers are hired (holding other inputs fixed). Then the marginal product of the 16th worker is:
- A. 10 units of output.
  - B. 11 units of output.
  - C. 16 units of output.
  - D. 176 units of output.
14. Economies of scale:
- A. Is the cost advantage that firms obtain when they produce more output.
  - B. Is the cost disadvantage that firms face when they produce more output.
  - C. Occurs when firms are operating in the short-run with limited resources.
  - D. Occurs when firms operations are shrinking.
15. When a perfectly competitive firm decides to shut down, it is most likely that
- A. Price is below the firm's average variable cost.
  - B. Marginal cost is above average variable cost.
  - C. Marginal cost is above average total cost.
  - D. Fixed costs exceed variable costs.

16. Which of the following statements is/are **TRUE** for a monopoly?
- I. A monopoly has the ability to set the price of its product at whatever level it desires.
  - II. A monopoly achieves both allocative and productive efficiency.
  - III. There are no barrier of entry for monopoly market.
- A. I only
  - B. II only
  - C. I and II
  - D. II and III
17. Which of the following statements is *false*?
- A. The perfect competitive firm produces where  $P = MC$ .
  - B. The monopolist produces where  $P = MC$ .
  - C. The perfect competitive firm produces where  $MR = MC$ .
  - D. The monopolist produces where  $MR = MC$ .
18. A market structure in which there are many firms selling products that are similar but not identical is known as
- A. Oligopoly.
  - B. Monopoly.
  - C. Perfect competition.
  - D. Monopolistic competition.
19. When markets fail, public policy:
- A. Can do nothing to improve the situation.
  - B. Can potentially remedy the problem and increase economic efficiency.
  - C. Can always remedy the problem and increase economic efficiency.
  - D. Can, in theory, remedy the problem, but in practice, public policy has proven to be ineffective.
20. The following goods could potentially trouble with free rider problem **EXCEPT**?
- A. Neighborhood security watch.
  - B. Private car.
  - C. Public education.
  - D. Street light.

**SECTION B (40%)**

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

**Question 1**

- (a) The following is the production possibility curve for Malaysia in producing consumer goods and capital goods.

Combination	Consumer goods	Capital goods	Opportunity cost
A	40	0	
B	35	1	
C	29	2	
D	22	3	
E	14	4	
F	5	5	

- (i) Define Opportunity cost. (2 marks)
- (ii) Fill in-the opportunity cost in producing capital goods. (3 marks)
- (iii) Explain whether Malaysia can achieve the combination of 40 consumer goods with 5 capital goods at the same time. (3 marks)
- (iv) Between combinations B and E, which of the production combination reflects future choice? Explain. (4 marks)
- (v) Suppose there is an influx of migrant to Malaysia. What is the effect of this change on the economy? Show it in PPC. (3 marks)
- (b) Using an appropriate diagrams, illustrate the concept of scarcity, efficiency and inefficiency. (5 marks)

**Question 2**

(a) When the price of Good X falls from RM 17.50 to RM 12.60, the quantity demanded increases from 325 units to 350 units per month. When consumer income increase from RM 1500 to 2000, the quantity demand increase from 325 units to 400 units.

(i) Calculate the price elasticity of demand using the midpoint formula. (3 marks)

(ii) If the price of Good X increases, what will happen to the total revenue of the company that produces Good X? Explain. (2 marks)

(iii) Calculate the income elasticity of demand for Good X. Interpret your answer. (4 marks)

(b) Table below shows the total utility that Nina gets from consuming Coke and Burgers. The price for Coke and Burgers are both \$2 per unit.

Quantity	Total Utility	
	Coke	Burgers
1	48	52
2	80	99
3	104	131
4	119	149
5	125	158
6	127	164

(i) Calculate the marginal utility for each product. (4 marks)

(ii) How many units of Coke and Burgers should Nina buy to maximize her utility? (7 marks)

**Question 3**

- (a) Table below shows Company ABC total cost and price level at each different quantity they produce.

Output (Unit)	Total Cost (\$)	Marginal Cost (\$)	Price (\$)	Marginal Revenue (\$)
0	50	-	0	-
1	61		10	
2	74		12	
3	89		13	
4	106		14	
5	128		15	
6	154		16	

- (i) Calculate the marginal cost and marginal revenue at each output level. (6 marks)
- (ii) What is the profit-maximizing price and output? (3 marks)
- (iii) If Company ABC is price taker in the market, -what will be the profit maximizing output if market equilibrium price is at \$ 15? Justify your answer. (5 marks)
- (b) Explain any **THREE (3)** differences between monopoly market and perfect competition market. (6 marks)

**SECTION C (20%)**

**Instruction:** Answer any **ONE (1)** questions out of the two questions provided. **Each question carries 20 marks.**

**Question 1**

- (a) Using supply-and-demand diagrams, show the effect of each of the following events on the market for palm oil in Malaysia. Identify and discuss the effect on equilibrium price and quantity.
- (i) Draught season in Malaysia. (5 marks)
  - (ii) Decrease in crude oil price from USD 50 per barrel to USD 27 per barrel. (5 marks)
  - (iii) Successful genetic improvement on palm oil seed. (5 marks)
- (b) Explain any **TWO (2)** determinant of price elasticity of demand. (5 marks)

**Question 2**

- (a) Using appropriate diagram, identify and explain the type of externality for the following events.
- (i) The amount of automobile increased. (7 marks)
  - (ii) Aluminum mining has causes river and sea pollution. (7 marks)
- (b) Discuss the **THREE (3)** method used by governments to resolve market failure. (6 marks)