INTI
International College Subang
LAUREATE INTERNATIONAL UNIVERSITIES

FINAL
Examination Paper

(COVER PAGE)

Session	:	January 2014
Programme	:	Diploma in Business
Course	:	**ECO2103 : PRINCIPLES OF MICROECONOMICS**
Date of Examination	:	March 12, 2014
Time	:	2:00pm – 4:00pm 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 : Non-Programmable Calculator

Materials provided : Nil

Examiner(s) : **Mr. Khor Kok Chin,** Diane Janet Joseph.

Moderator : Associate Professor Dr. Evelyn S. Devadason

This paper consists of 5 printed pages, including the cover page

INTI INTERNATIONAL COLLEGE SUBANG

DIPLOMA IN BUSINESS PROGRAMME (DIB)
ECO 2103: PRINCIPLES OF MICROECONOMICS
FINAL EXAMINATION: JANUARY 2014 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) Table 1 shows the production possibilities schedule for a country M.

Table 1

Combination	A	B	C	D	E
X (Million units)	0	1	2	3	4
Y (Million tons)	10	9	7	4	0

(i) Explain the term 'production possibility curve'. Give **TWO (2)** assumptions used to construct a production possibility curve.

(3 marks)

(ii) Construct the production possibility curve.

(2 marks)

(iii) What is 'opportunity cost'? Why does opportunity cost exist?

(2 marks)

(iv) Calculate the opportunity cost of producing:

(A) 1 million units of X
(B) 3 million units of X
(C) 7 million tons of Y
(D) 10 million tons of Y

(8 marks)

(b) Define and explain the **FOUR (4)** factors of production with appropriate examples.

(10 marks)

(Total: 25 marks)

Question 2

(a) Describe the **FOUR (4)** basic types of economic systems.

(20 marks)

(b) Identify the benefits of centrally planned economies.

(5 marks)

(Total: 25 marks)

Question 3

(a) Table 2 shows the price level, quantity demand and quantity supply for a normal good.

Table 2

Price (RM/unit)	Quantity demanded (Units)	Quantity supplied (Units)
5	100	10
10	90	30
15	80	50
20	70	70
25	60	90
30	50	110

(i) State the equilibrium price and quantity of the product.

(2 marks)

(ii) Calculate the total revenue at the equilibrium position.

(2 marks)

(iii) What happens if the price were at:
(A) RM10 per unit.
(B) RM25 per unit.

(4 marks)

(iv) If demand increases by 30 units at each price level while supply remains constant, determine the new equilibrium price and quantity of this normal good with aid of a new table.

(3 marks)

(v) State and briefly explain any **TWO (2)** factors that may have caused the increase in demand.

(2 marks)

(b) Explain and apply the concept of Maximum Price and Minimum Price with appropriate examples and diagrams.

(12 marks)

(Total: 25 marks)

Question 4

(a) Describe Price Elasticity of Supply (E_S).

(3 marks)

(b) Illustrate the diagram for every responses of Price Elasticity of Supply (E_S).

(10 marks)

(c) Identify **FOUR (4)** factors that affect Price Elasticity of Supply (E_S).

(12 marks)

(Total: 25 marks)

Question 5

(a) Table 3 shows the metal production pattern for Adam's Metal Ltd.

Table 3

Labour	1	2	3	4	5	6	7	8	9	10
TP	10	36	68	106	145	176	200	222	242	260
MP										

(i) Define Total Product (TP) and Marginal Product (MP).

(4 marks)

(ii) Fill up the empty spaces in Table 3 with showing one level of complete calculation steps.

(6 marks)

(b) Table 4 shows Hawa's Spaghetti Ltd total output and total cost (all in RM).

Table 4

Q	Total Cost (TC)	Average Total Cost (ATC)	Average Fix Cost (AFC)	Average Variable Cost (AVC)	Marginal Cost (MC)
0	80				
1	100				
2	115				
3	128				
4	140				
5	150				
6	160				
7	190				
8	230				
9	280				
10	335				

(i) Fill up all the empty spaces in Table 4.

(10 marks)

(ii) Apply the concept of economies of scale and diseconomies of scale into Table 4 and identify the possibly spaghettis that Hawa will produced.

(5 marks)

(Total: 25 marks)

Question 6

The following two figures represent the firm and the market for a perfectly competitive industry.

Figure 1

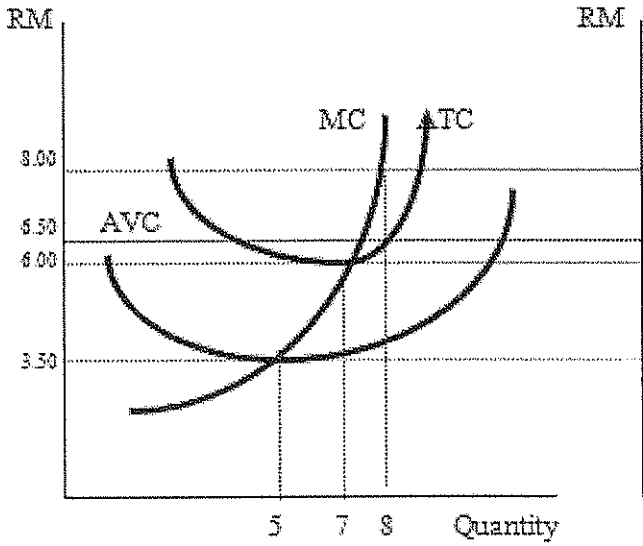

Figure 2

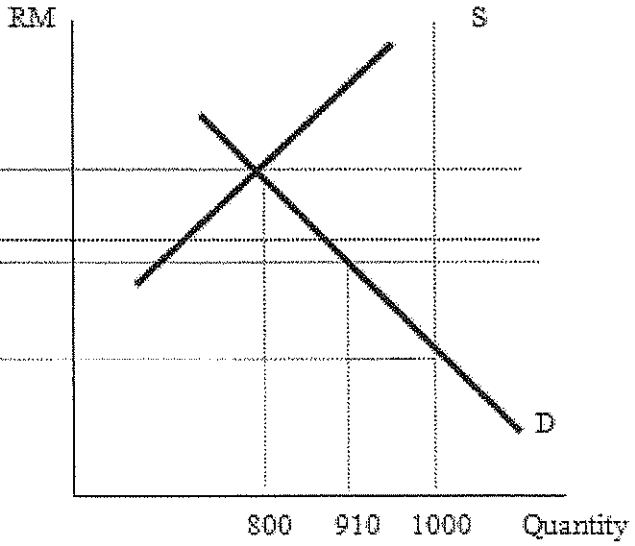

Figure 1 depicts the cost curves facing the individual firm and Figure 2 depicts the market supply and demand curves for the perfectly competitive product. Assume that all the individual firms in this market are identical and that they are initially operating in the short run.

(a) Explain any **FOUR (4)** characteristics of a perfect competition

(8 marks)

(b) Identify the short run market price.

(2 marks)

(c) Identify the quantity that each profit maximizing firm produces at short run market price.

(2 marks)

(d) Identify the economic profit earned by each profit maximizing firm with complete calculation steps.

(4 marks)

(e) Identify the total firms in this industry.

(2 marks)

(f) According to answer in Question 6 (c), identify whether there will be entry to or exit from in the long run. Why?

(3 marks)

(g) If short run market price is at RM6, should this perfectly competitive firm shut down or keep operating in the industry? Why?

(2 marks)

(h) If long run market price is at RM3.50, should this perfectly competitive firm stay in the industry or withdraw from the industry? Why?

(2 marks)

(Total: 25 marks)

-THE END-

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