



FINAL
Examination Paper

(COVER PAGE)

Session : January 2017

Programme : Diploma In Business (DIB)

Course : **ECO2103: Principles of Microeconomics**

Date of Examination : 09 March, 2017 (Thursday)

Time : 11:00am – 1:00pm 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, Graph paper

Examiner(s) : Lee Weng Chang

Moderator : Dr Evelyn Shyamala Devadason

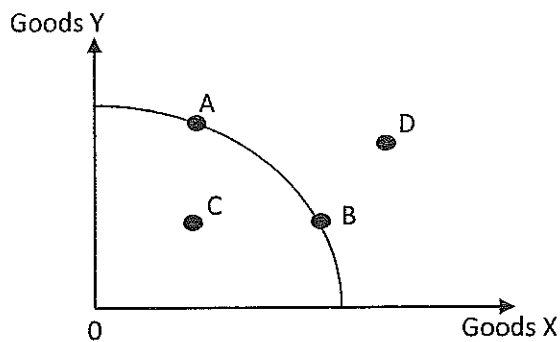
This paper consists of 10 printed pages, including the cover page

DIPLOMA IN BUSINESS/FINANCE/ENTREPRENEURSHIP (DIB/DIF/DENT)
 ECO2103: PRINCIPLES OF MICROECONOMICS
 FINAL EXAMINATION: JANUARY 2017 SESSION

Instruction: This paper consists of **THREE (3) SECTIONS**. Answer **ALL** questions in **SECTION A**, **TWO (2)** questions from **SECTION B** and **ONE (1)** question from **SECTION C**.

SECTION A: Answer **ALL** questions in the OMR sheets provided. (40 marks)

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



The following statements are true **EXCEPT?**

- A. Point B are more efficient than Point A.
 - B. Point D is attainable because of scarcity.
 - C. Point C is inefficient.
 - D. Point A and B is full employment.
2. Statement one
 "RM had depreciated by 10% compared to last month"
- Statement two
 "The Malaysia Central Bank should intervene to stabilize the value of RM"
- Which of the above statement is a positive statement and normative statement?
- 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. During a certain period, 10,000 units of a normal good are sold at a price of 10 cents. During a later period, 12,000 units are sold at a price of 10 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
4. When demand 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
5. Suppose pens are currently selling for \$4.00 per dozen, while the equilibrium price of a pen is \$3.00 per dozen. We would expect a
- A. shortage to exist and the market price of pens to increase.
 - B. shortage to exist and the market price of pens to decrease.
 - C. surplus to exist and the market price of pens to increase.
 - D. surplus to exist and the market price of pens to decrease.
6. Assume that a 4 percent increase in income results in a 3 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is:
- A. Negative and therefore the good is an inferior good.
 - B. Negative and therefore the good is a normal good.
 - C. Positive and therefore the good is a normal good.
 - D. Positive and therefore the good is an inferior good.
7. When price elasticity of demand (E_d) is inelastic, it means that the _____. Any increase in price would lead to a _____.
- A. percentage changes in price is less than percentages change in quantity; decrease in total revenue.
 - B. percentage changes in price is less than percentages change in quantity; increase in total revenue.
 - C. percentage changes in price is more than percentages change in quantity; increase in total revenue.
 - D. percentage changes in price is more than percentages change in quantity; decrease in total revenue.

8. The theory of utility examines:
- A. The determination of output in competitive markets.
 - B. The satisfaction experienced by consumers of a good.
 - C. How consumers select inputs into manufacturing production processes.
 - D. The determination of prices in competitive markets.
9. An example of a fixed cost in production would be:
- A. Wages.
 - B. Monthly installment to the bank.
 - C. Utility bills.
 - D. Raw materials needed in production.
10. 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.
11. Economies of scale are the:
- A. Cost advantage that firms obtain when they produce more output.
 - B. Cost disadvantage faced by the firms when they produce more output.
 - C. Occur when firms expand their operation.
 - D. Occur when firms operation are shrinking.
12. 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.

13. Which of the following statement 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 barriers of entry in a monopoly market.
- A. I only
 - B. II only
 - C. I and II
 - D. II and III
14. Which of the following statement 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 $MR = MC$.
15. 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.
16. Which of the following are the reasons for firms' in a perfect competition market to be a price taker?
- I. Perfect information
 - II. All firms selling identical product
 - III. No transaction cost
 - IV. Advertise the product
- A. I & II
 - B. I & III
 - C. I, II & III
 - D. II, III & IV

17. The following could potentially result in a free rider problem **EXCEPT**?
- A. Neighborhood security watch.
 - B. Private car.
 - C. Public education.
 - D. Street light.
18. Which of the following explain the difference between public goods and private good?
- I. Public goods are non-rivalry
 - II. Private goods are non-excludable
 - III. Public goods are excludable
 - IV. Private goods are rivalry
- A. I & II
 - B. II & III
 - C. III & IV
 - D. I & IV
19. To reduce the market failure that comes from positive consumption externalities, the government can consider
- A. increasing taxes.
 - B. ban products.
 - C. increase subsidy.
 - D. reduce subsidies.
20. Oligopoly firms sell
- A. homogenous/identical product.
 - B. differentiated product.
 - C. product at same price regardless of quantity.
 - D. unique product

SECTION B: Answer any TWO (2) questions in the answer booklet provided. (40 marks)**Question 1**

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

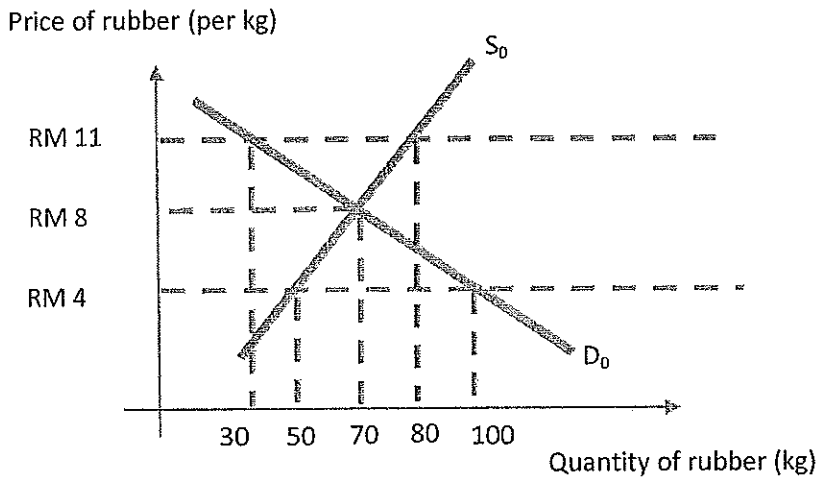
Combination	Consumer goods	Capital goods	Opportunity cost
A	100	0	-
B	90	1	
C	75	2	
D	65	3	
E	35	4	
F	0	5	

- i. Define opportunity cost. (2 marks)
 - ii. Fill in the column on opportunity cost in producing the 1st until the fifth units of capital goods. (3 marks)
 - iii. Suppose there is an increase in population in Indonesia. What is the effect of this change on the economy? Illustrate your answer using the production possibility curve. (3 marks)
- (b) Using appropriate diagrams, illustrate the concept of scarcity, efficiency and inefficiency. (5 marks)
- (c) Using appropriate diagrams, illustrate the flow of income between agents of an economy. (7 marks)

Question 2

- (a) When the price of good A falls from RM 12 to RM 10, the quantity demanded increases from 300 units to 350 units per month. When consumer income increases from RM 2000 to RM 2500, the quantity demanded increases 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 A increases, what will happen to the total revenue of the company that produces good A? Explain. (3 marks)
 - iii. Calculate the income elasticity of demand for good A. Interpret your answer. (4 marks)

(b) The following diagram shows the equilibrium price and quantity for the rubber market in Malaysia.



- i) Calculate the total revenue earned by the rubber producer in Malaysia at the market equilibrium. (2 marks)
- ii) Does the total revenue earned by the rubber suppliers change if the Malaysian government sets RM11 per kg as the price floor? Calculate the new total revenue and briefly explain your answer. (4 marks)
- iii) Does the total revenue earned by the rubber suppliers change if the Malaysian government sets RM 4 per kg as the price floor? Calculate the new total revenue and briefly explain your answer. (4 marks)

Question 3

- (a) Table below shows company's BCD total cost and price level at each different quantity they produce.

Output (Unit)	Total Cost (\$)	Marginal Cost (\$)	Price (\$)	Marginal Revenue (\$)
0	50	-	0	-
1	55		20	
2	65			
3	80			
4	100			
5	125			
6	155			

- i. Assume that the company BCD is in perfect competition market, 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. Suppose company BCD is a price maker in the market, will its profit maximizing price and output remain the same? Justify your answer. (3 marks)
- (b) Explain any **THREE (3)** differences between a monopoly market and a perfect competition market. (8 marks)

SECTION C: Answer ONE (1) question in the answer booklet provided. (20 marks)

Question 1

- (a) Using supply-and-demand diagrams, show the effect of each of the following events on the coffee market in Malaysia. Identify and discuss the effect on equilibrium price and quantity.
- i. Price for tea increased. (5 marks)
 - ii. Price for coffee milk decreased. (5 marks)
 - iii. News about over-consumption of coffee would cause cancer. (5 marks)
- (b) Explain any **TWO (2)** determinant of price elasticity of supply. (5 marks)

Question 2

- (a) Using appropriate diagrams, identify and explain the type of externality for the following events.
- i. The number of motorcars increased. (7 marks)
 - ii. Forest fire in Indonesia had caused the haze problem in Malaysia. (7 marks)
- (b) Discuss **THREE (3)** methods used by governments to resolve market failure. (6 marks)