



**BERJAYA BUSINESS SCHOOL**

**FINAL EXAMINATION**

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Subject Code & Name : **ECO1513 MICROECONOMICS**  
Semester & Year : January - April 2017  
Lecturer/Examiner : Ms. Tey Sheik Kyin  
Duration : 3 Hours

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**INSTRUCTIONS TO CANDIDATES**

1. This question paper consists of 2 parts:  
PART A (20 marks) : THREE (3) short answer questions. Answers are to be written in the Answer Booklet provided.  
PART B (80 marks) : FOUR (4) structure-type questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple-choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College of Hospitality regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College of Hospitality.

**Total Number of pages = 6 (Including the cover page)**

**PART A : SHORT ANSWER QUESTIONS (20 MARKS)**

**INSTRUCTION : THREE (3) short answer questions. Answer ALL questions in the Answer Booklet(s) provided.**

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**Question 1**

Which of the following statements are positive and which are normative?

- a. In my opinion, government control of rent is injustice.
- b. An increase in college tuition will lead fewer students to apply to college.
- c. The best level of taxation is zero percent because then people get to keep everything they earn.

**[Total: 3 marks]**

**Question 2**

Indicate whether each of the following questions are addressed by macroeconomics or microeconomics

- a. How does a market work?
- b. How do changes in money supply affect the economy?
- c. What are the effects on equilibrium price and quantity for car market when government reduce subsidies?

**[Total: 3 marks]**

### Question 3

Identify how the following events affect demand or supply curves and explain the impact on the equilibrium price and quantity for car market.

- a. Price of the steel used to make cars has decreased.
- b. Consumers expect that price of the car will increase in the future.
- c. Producer expect that price of the car will increase in the future.
- d. Price of petrol decrease.
- e. Government impose higher tax on producers.
- f. Income increase and car is normal good.
- g. An increased preference for walking rather than driving

**[Total: 14 marks]**

**END OF PART A**

**PART B : STRUCTURE-TYPE QUESTIONS (80 MARKS)**

**INSTRUCTION(S) : FOUR (4) structure-type questions. Answer ALL questions in the Answer Booklet(s) provided.**

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**Question 1**

- a. Presently, Century Products Manufacturing Sdn. Bhd. has maximised the production of its range of products with its present technology and resources. Recently, a decision was made to invest RM20 million in new technology and resources. Using an appropriate diagram, describe the future effect of the above decision on the production possibility frontier (PPF) of the company.

(6 marks)

- b. Table 1 shows the prices, quantity demanded and quantity supplied for good A.

Prices	Quantity demanded (Qd)	Quantity supplied (Qs)
1	50	10
2	40	20
3	30	30
4	20	40
5	10	50

- i. Find the equations for demand and supply.
- ii. Determine the equilibrium price and quantity.
- iii. Calculate the price elasticity of demand for good A when price increase from 4 to 5 and interpret the coefficient of price elasticity of demand
- iv. Examine the decision to increase the price of the good A in terms of its effect on total revenue and profits, assuming costs are unchanged.

(4 marks)

(2 marks)

(5 marks)

(3 marks)

**[Total: 20 marks]**

## Question 2

- a. James quit his job as a marketing manager where he earned RM120, 000 a year. He sets up a mini-cafe using his RM200, 000 personal savings that earned interest of RM3, 000 per year. During the year, he made RM120, 000 in total revenue and paid RM6, 500 for the costs of equipment, utilities, internet service and office supplies.
- Calculate James's accounting profit and economic profit. (6 marks)
  - "I am not sure if I made the right decision to start this business." says James. Comment on the above statement. (4 marks)
- b. "The waste materials dumped by factories causes pollution in the nearby river."
- Identify and explain the type of the externality described above. (3 marks)
  - Use an appropriate diagram, illustrate and explain how the above externality leads to market inefficiency. (7 marks)
- [Total: 20 marks]**

## Question 3

- a. Using a Long Run Average Total Cost (LRATC) diagram, briefly explain the 'economies of scale', 'constant returns to scale' and 'diseconomies of scale'. ( 12 marks)
- b. The following table shows the total revenue and total cost of a firm at the various quantities of output:

<i>Quantity</i>	<i>Total Cost (RM)</i>	<i>Total Revenue (RM)</i>	<i>Marginal Cost (RM)</i>	<i>Marginal Revenue (RM)</i>
0	10	0	-	-
1	30	60		
2	60	110		
3	100	150		
4	150	180		
5	190	200		
6	220	210		

- i. Calculate the marginal cost and marginal revenue of the firm (6 marks)
- ii. Determine the profit maximizing output level and profit. (2 marks)
- [Total: 20 marks]**

#### Question 4

- a. Briefly explain **THREE (3)** characteristics of perfect competitive market. (9 marks)
- b. Compare and explain the demand curve faced by perfect competitive firm and monopolist. (6 marks)
- c. Given the following information for Company X:

Total revenue	= RM300	Total costs	= RM650
Total fixed costs	= RM400	Total variable costs	= RM250
Price per unit	= RM6	Quantity sold	= 50 units

- i. Based on the information above, determine whether this company is making profits or losses. (2 marks)
- ii. Based on (i), propose to the owners whether this company should continue business or shutdown. (3 marks)
- [Total: 20 marks]**

**END OF QUESTION PAPER**