



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Subject Code & Name : **ECO1503 Economics**
Trimester& Year : May – August 2017
Lecturer/Examiner : Ms. Chong Poh Ling
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
PART A (30 marks) : THIRTY (30) multiple choice questions. Answer ALL questions. Shade your answers in the Multiple Choice Answer Sheet provided.
PART B (70 marks) : FOUR (4) essay questions. Answer ALL 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.

PART B : ESSAY QUESTIONS (70 MARKS)

INSTRUCTION(S) : FOUR (4) essay questions. Answer ALL questions. Answers are to be written in the Answer Booklet provided.

QUESTION 1

The following table provides information about the production possibilities curve of Fitness Direct.

Bats	Rackets
0	420
100	400
200	360
300	300
400	200
500	0

- a) Draw a production possibility curve between Rackets, measured on the vertical axis, and Bats, measured on the horizontal axis.
(5 marks)
- b) If Fitness Direct currently produces 100 bats and 400 rackets, what is the opportunity cost of an additional 100 bats?
(2 marks)
- c) If Fitness Direct currently produces 300 bats and 300 rackets, what is the opportunity cost of an additional 100 bats?
(2 marks)
- d) Why does the additional production of 100 bats in part (c) cause a greater trade-off than the additional production of 100 bats in part (b)?
(4 marks)
- e) Suppose Fitness Direct is currently producing 200 bats and 200 rackets.
i) How many additional bats could they produce without giving up any rackets?
ii) How many additional rackets could they produce without giving up any bats?
(4 marks)
- f) Is the production of 200 bats and 200 rackets efficient? Explain.
(3 marks)

[Total: 20 Marks]

QUESTION 2

a) Carefully explain why a typical demand curve slopes downwards.

(3 marks)

b) The data below is for the demand and supply of Good A.

Price (RM)	Demand (unit)	Supply (unit)
0	100	0
1	80	30
2	60	60
3	40	90
4	20	120
5	0	150

i) Draw the demand and supply curves using a graph. You can draw the curves according to scale on the answer booklet.

(5 marks)

ii) Describe the situation if:

Price = RM1

Price = RM4

Explain your answer with the help of the graph.

(5 marks)

c) Chicken and beef are substitute goods. Illustrate the effect when the **price of beef decreases** on the **equilibrium price** and **quantity of chicken**. Draw a diagram to explain your answer.

(7 marks)

[Total: 20 marks]

QUESTION 3

a) What is the difference between short and long run?

(3 marks)

b) What does “return to scale” mean?

(2 marks)

c) The “Rusty Gear” shop specializing in car repairs rents a building at the corner of Jalan Bulan. In the short run, it can vary its output (the number of cars fixed) only by varying the number of mechanics it employs. Each “Rusty Gear” employee is paid a fixed wage.

Over the years, Sean Siang, the owner of “Rusty Gear”, has tried hiring different numbers of workers. The data about the average productivity of each worker (also known as the Average Product of Labour) for each number of workers are given in the table below.

Number of workers	Average Product	Total Product	Marginal Product
1	5		
2	7		
3	10		
4	11		
5	10		
6	9		

i) Complete the table by calculating the Total Product of Labour (total output of the firm) and Marginal Product of Labour corresponding to each number of workers.

(2 marks)

ii) At which worker does the Law of Diminishing Marginal Returns start working? Why?

(2 marks)

iii) Using the "Rusty Gear" example, explain why every firm, as it hires more people in an attempt to increase its output, will sooner or later hit the range of diminishing marginal returns.

(2 marks)

iv) When Mr. Siang's son looked at the table, he said to his father: "Hiring 5th and 6th person makes no sense!" Do you agree? Explain your answer.

(2 marks)

v) Currently, "Rusty Gear" employs 3 workers, each of whom is paid \$200 a day. Determine the average labour cost of repairing a car.

(2 marks)

[Total: 15 marks]

QUESTION 4

a) Macroeconomics is the study of the structure and performance of national economies and of the policies that governments use to try to affect economic performance. Describe and explain **FIVE (5)** issues that are being addressed by macroeconomists.

(10 marks)

b) What policy will the Central Bank use if the economy is going through inflation? What are the **THREE (3)** means which the Central Bank will use to reduce the reserves of commercial banks?

(5 marks)

[Total: 15 Marks]

END OF EXAM PAPER