UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2024 SEMESTER

COURSE CODE	:	**EGB10903**
COURSE NAME	:	**PRINCIPLES OF MICROECONOMICS**
PROGRAMME NAME	:	**BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS**
DATE	:	**6 JULY 2024**
TIME	:	**9.00 AM – 12.00 PM**
DURATION	:	**3 HOURS**

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given in the question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This question paper consists of **FOUR (4)** structural questions.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE FIVE (5) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 100 marks)

INSTRUCTION: Answer ALL questions.
Please use the answer booklet provided.

Question 1

Consider the following events: a new environmental regulation is introduced that increases the cost of production for electric cars and at the same time consumer preferences shift in favor of environmentally friendly vehicles due to increased awareness about climate change.

(a) Illustrate and analyze the effect of each event on the supply and demand curves for electric cars.

(10 marks)

(b) Predict the overall impact on the equilibrium price and quantity of electric cars in the market. Illustrate with relevant diagram(s) to support your answer.

(15 marks)

Question 2

A consumer finds only three products, X, Y, and Z, are for sale. The amount of utility which their consumption will yield is shown in the table below. Assume that the prices of X, Y, and Z are $10, $2, and $8, respectively, and that the consumer has an income of $74 to spend.

Table 1: Utility for Product X, Y and Z

Product X			Product Y			Product Z		
Quantity	Utility	Marginal Utility per $	Quantity	Utility	Marginal Utility per $	Quantity	Utility	Marginal Utility per $
1	42	______	1	14	______	1	32	______
2	82	______	2	26	______	2	60	______
3	118	______	3	36	______	3	84	______
4	148	______	4	44	______	4	100	______
5	170	______	5	50	______	5	110	______
6	182	______	6	54	______	6	116	______
7	182	______	7	56.4	______	7	120	______

(a) Complete the table by computing the marginal utility per dollar for successive units of X, Y, and Z to one or two decimal places.

(10 marks)

(b) How many units of X, Y, and Z will the consumer buy when maximizing utility and spending all income? Show this result using the utility maximization formula.

(6 marks)

(c) Why would the consumer not be maximizing utility by purchasing 2 units of X, 4 units of Y, and 1 unit of Z? Show the calculation.

(9 marks)

Question 3

After working as a manager at a restaurant for years, Maria gave up her $60,000 annual salary to open her own cafe last year. She withdrew $50,000 of her own savings that had been earning 4% interest and borrowed another $150,000 from the bank at a rate of 6%. As the cafe space she was leasing had no separate office, Maria converted her apartment into an office space. She had previously rented the apartment to a student for $300/month. The following table summarizes her operations for the past year.

Table 2: Total Cost and Revenue for Maria's Company

Total sales revenue			$590,000
	Employee wages	$120,000	
	Materials	$350,000	
	Interest on loan	$5,000	
	Utilities	$10,000	
	Rent	$25,000	
Total explicit costs			$510,000

(a) What is Maria's accounting profit?

(3 marks)

(b) Suppose Maria could have used her talents to run a similar kind of business instead. If she values her entrepreneurial skill at $10,000 annually, find Maria's total implicit costs.

(10 marks)

(c) What was Maria's economic profit last year?

(6 marks)

(d) Discuss the significance of the difference between Maria's accounting and economic profit in evaluating the performance of her cafe business.

(6 marks)

Question 4

(a) Discuss how the profit-maximizing output level is determined in a perfect competition. Illustrate with relevant diagram(s) to support your answer.

(9 marks)

(b) Analyze the profit conditions for a monopolistically competitive firm in both the short run and the long run. Compare and contrast the short-run and long-run scenarios. Illustrate with relevant diagram(s) to support your answer

(9 marks)

(c) What are the basic characteristics of oligopoly? How does oligopoly compare with other market structures like monopolistic competition, monopoly, and perfect competition?

(7 marks)

END OF EXAMINATION PAPER