CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
OCTOBER 2024 SEMESTER

COURSE CODE	:	EGB10403
COURSE NAME	:	INTERMEDIATE MICROECONOMICS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE	:	13 FEBRUARY 2025
TIME	:	2.00 PM – 5.00 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 **THREE (3) Sections; Section A, Section B and Section C**.
4. Answer **ALL** questions in **Section A** and **Section C,** choose **ANY ONE (1)** from **Section B**
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.**
8. **Only non-programmable calculators are allowed.**

THERE ARE ELEVEN (11) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 25 marks)

INSTRUCTION: Answer ALL questions.

Please use the objective answer sheet provided.

1. In the market of roasted coffee beans, harvest is badly affected by draughts, what is expected to happen to the market of roasted coffee beans in the short run?
   A. Both price and quantity traded will fall.
   B. Price will rise but quantity traded will fall.
   C. Price will rise but quantity traded cannot be determined.
   D. Quantity traded will fall but price cannot be determined.

2. The government is providing tax relief for installing, rental and purchase of electical vehicle (EV) charging equipment. At the same time, the demand for electric vehicles in Malaysia is expected to grow by 4% (2024 – 2029). What is expected to be the outcome of EV market in Malaysia?
   A. Both price and quantity traded will rise.
   B. Price will rise but quantity traded will fall.
   C. Price will rise but quantity traded cannot be determined.
   D. Quantity traded will rise but price cannot be determined.

3. Gathering durians in the orchard requires only labour input. The number of durians gathered per hour is given by $X = 100(L)^{1/2}$, where L is labour per hour. The average product of labour and the marginal product of labour are:
   A. $AP = 100(L)^{1/2}$, $MP = 50(L)^{1/2}$
   B. $AP = 100(L)^{-1/2}$, $MP = 50(L)^{-1/2}$
   C. $AP = 50(L)^{1/2}$, $MP = 50(L)^{-1/2}$
   D. $AP = 100$, $MP = 100L$

4. Production function for a firm is given as $X = \sqrt{LK}$, where L is labour and K is capital. Given costs of inputs w = RM1, v = RM4 and K = 1. Assume perfect competition and the market price for the output is p. The firm's short run supply curve is given by ________________.
   A. $X = p/2$
   B. $X = 2p$
   C. $X = 2$
   D. $X = p$

5. A monopoly firm is facing a market demand curve given by $p = 50 - 5Q$ and its marginal cost and average cost are $MC = AC = RM10$. Calculate the profit maximization output and price for this firm.

A. $Q^* = 4, P^* = 30$
B. $Q^* = 4, P^* = 4$
C. $Q^* = 8, P^* = 10$
D. $Q^* = 8, P^* = 8$

6. A monopoly firm will always produce in the elastic range of the demand curve because:

I. the inelastic range indicates negative marginal revenue (MR)
II. revenue is increasing when more quantity is sold at lower prices
III. $MR = p(1 - 1/e)$ where e is the elasticity of demand
IV. revenue is at the maximum before demand curve reaches the unit elastic point

A. I and III only
B. II and IV only
C. I, II, III and IV
D. None of the above

7. A firm sells an identical product to two different markets. The two demand curves are:

$P_1 = 500 - 8X_1$

$P_2 = 400 - 5X_2$

$Q = X_1 + X_2$ is the total produced and sold.

The total cost is given by $TC = 10000 + 20Q$.

The prices firm would be selling:

A. $P^*_1 = 120, P^*_2 = 240$
B. $P^*_1 = 30, P^*_2 = 38$
C. $P^*_1 = 260, P^*_2 = 210$
D. $P^*_1 = 480, P^*_2 = 380$

8. Choose the statement that **BEST** define dominant strategy.

A. A strategy to analyse the behaviour of firms in a perfectly competitive market.
B. A strategy that yields the best result no matter what an opponent does.
C. A plan to calculate the possibility of suffering loss in a business.
D. An action taken by a firm to force competitors out of the market.

9. There are many buyers and many sellers in this type of market structure. Each firm is very small, however, due to the way they packaged their products, they are able to demand certain market price. At the same time, each firm may be earning economic profit in the short run but all will earn normal profit in the long run. This market structure is most likely:

A. oligopoly
B. monopsony
C. perfect competition
D. Monopolistic competition

10. Refer to the game matrix between two firms selling similar products as shown in Diagram 1.

Diagram 1: Price Strategies for Two Firms

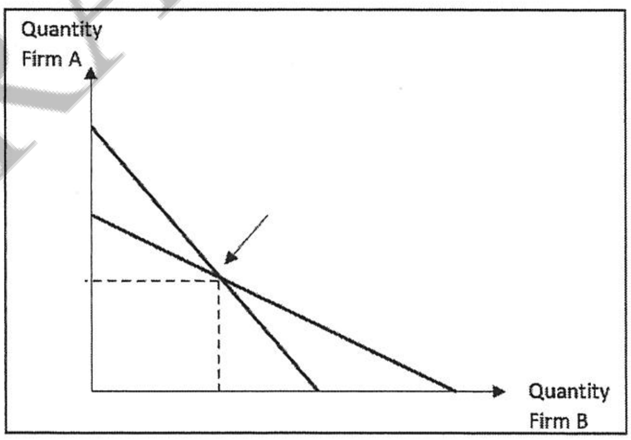
		Firm 1	
		RM5	RM10
Firm 2	RM5	50, 50	100, 0
	RM10	0, 100	90, 90

Under non-cooperative game, what is the price charged by Firm 2 and what is the profit?

A. P = RM5, profit = 50
B. P = RM10, profit = 0
C. P = RM5, Profit = 100
D. P = RM10, Profit = 90

11. Refer to Diagram 2, in a duopoly market, the intersection of the two best-response curves indicates:

Diagram 2: Best Response Curves for Two Competing Firms



A. Bertrand equilibrium
B. Cartel equilibrium
C. Price-taking equilibrium
D. Cournot equilibrium

12. A firm will maximise profit by hiring workers until the ________________.
    A. marginal revenue product of the last worker exactly equals the marginal cost of employing that worker
    B. marginal product of the last worker exactly equals the marginal cost of employing that worker
    C. price of the last output by the last worker equals the marginal cost of employing the next worker
    D. total revenue generated equals the total cost of employing all the workers

13. Assume an individual consumption depends on consumption (C) and hours of leisure (h), and w is the wage received per hour of work. Utility = U(c, h). To maximise utility, the individual is bound by the following constraint:
    A. C = 24h
    B. C = 24w
    C. C = 24/w
    D. C = w(24 – h)

14. Wage differences occur due to the following reasons **EXCEPT**:
    A. Job search uncertainty causes job seekers to set a reservation wage and take the first job that offered the wage.
    B. Differences in human capital leads to differences in productivity and thus different wages.
    C. Compensating differentials such as higher wages for higher risk jobs to attract workers.
    D. Job seekers agree to wage exactly equals their marginal revenue product.

15. In the labour market, if real wage is below the market equilibrium wage,
    A. firms will find there are plenty of workers for them to choose from.
    B. firms will find it difficult to find workers to fill the vacancies.
    C. the low wages will persists because wages are sticky.
    D. there will be surplus of workers.

16. Which of the statements below is correct pertaining to Edgeworth Box Diagram?
    I. Competitive market will exhibit inefficient input choices.
    II. The isoquant maps for two goods have origins at two opposite corners.
    III. Efficient allocations will occur where the isoquants are tangent to one another.
    IV. Efficient allocations will occur where the isoquants are crossing each other.

    A. I and III
    B. II and III
    C. I, II and III
    D. I, II, III and IV

17. Choose the statement that **BEST** explains "pareto efficiency".
    A. Pareto efficiency occurs when the government intervenes in the free market to ensure equal distribution of goods.
    B. Pareto efficiency is achieved when one's utility is maximized at the expense of another.
    C. Pareto efficiency is a situation where it is impossible to make one person better off without making another worse off.
    D. Pareto efficiency is only achievable in a perfectly competitive market.

18. In the context of general equilibrium, what is implied by Walrasian equilibrium?
    A. A situation where the government set prices and allocate resources in every market.
    B. An equilibrium condition where demand equals supply in a single market.
    C. A point where all markets clear simultaneously through price adjustments.
    D. A situation where consumers maximise utilities and firms maximise profit.

19. Asymmetric information refers to:
    A. Consumers and suppliers both have access to information about a product.
    B. A situation where one party has more information about a transaction than the other party.
    C. The presence of government regulations that ensure transparency in the market.
    D. A situation where prices are adjusted to reflect all available information in the market.

20. Select an example that **BEST** describes "adverse selection" due to asymmetric information.
    - A. Big companies offer higher salaries to attract skilled workers.
    - B. Banks offer lower interest rates to customers with good credit standings.
    - C. A property agent providing detailed information about the condition of the house.
    - D. Individuals who are smokers declared themselves to be non-smokers when signing up for health insurance.

21. To address the issue of asymmetric information, insurance companies may do the following **EXCEPT**:
    - A. require the customer to bear costs in the form of deductibles and copayments
    - B. require the potential customer to produce a full medical report
    - C. revise the premiums down as the customer gets older
    - D. cap the insurer's liability for the damage claimed

22. Which of the following scenarios best illustrates the "lighthouse" example often used in discussions of public goods?
    - A. A privately-owned beach resort charges admission fees for access to its facilities.
    - B. A community-funded project installs solar-powered streetlights in a neighbourhood.
    - C. A subscription-based streaming service offers exclusive content to paying subscribers.
    - D. A government agency provides subsidies to farmers to encourage crop production.

23. Which of the following scenarios **BEST** describes how externalities can influence a firm's performance?

    A. Externalities have minimal impact on firm performance, as firms can internalize external costs and benefits through market mechanisms.

    B. Externalities arise when firms neglect to consider the societal impacts of their production or consumption activities, leading to suboptimal outcomes.

    C. Firms are generally insulated from externalities as government regulations and interventions ensure that market outcomes remain efficient.

    D. Externalities create opportunities for firms to exploit market inefficiencies and gain competitive advantage, regardless of societal consequences.

24. In the presence of public goods, why a competitive market would fail to allocate resources efficiently?

    A. Competitive markets are inherently inefficient due to excessive government regulation and intervention.

    B. Public goods are characterized by non-excludability and non-rivalry in consumption, making it impractical for private firms to supply them.

    C. Competitive markets prioritise the interests of individual consumers and producers, often overlooking the broader societal benefits of public goods provision.

    D. The presence of public goods leads to market failure, as firms lack incentives to produce them, and consumers may free-ride on the contributions of others.

25. Public good causes market failure because ______________.

    A. people demand for the good but they are not provided by private firms due to free rider problems

    B. the price of a public good that an individual is willing to pay is the sum of what each individual would pay, so the price is too high

    C. government will provide the good to the public but people pay higher tax to subsidies the provision

    D. regardless of the price, private firms will not produce public goods

SECTION B (Total: 15 marks)

INSTRUCTION: Answer ANY ONE question.
Please use the answer booklet provided.

Question 1a

a) Explain positive externalities with **TWO** examples.

(7 marks)

b) Name **TWO** policy tools of government to correct such market failures and compare their effectiveness.

(8 marks)

[15 marks]

Question 1b

(a) Explain negative externalities with **TWO** examples.

(7 marks)

(b) Name TWO policy tools of government to correct such market failures and compare their effectiveness.

(8 marks)

[15 marks]

[This section is intentionally left blank.]

SECTION C (Total: 60 marks)

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

Question 2

Explain the concept of "moral hazard" in the labour market. Name and explain **TWO** potential mechanisms for firms to mitigate moral hazard among the workers..

(20 marks)

[Total: 20 marks]

Question 3

(a) Explain marginal productivity of labour theory.

(5 marks)

(b) Assess the advantages and limitations of this theory in determining wages.

(12 marks)

(c) Name **THREE** effects of a monopsony firm on demand of labour.

(3 marks)

[Total: 20 marks]

Question 4

Generally, a monopoly firm is the only supplier in a market and it has high market power. However, it is possible for a monopoly firm to earn economic profit or suffer economic loss.

(a) Explain how a monopoly firm decides on output and charges the corresponding price to consumers. Sketch a diagram to illustrate when such decision results in economic profit.

(10 marks)

(b) Sometimes government regulates the monopoly. In the event that a monopoly is facing average cost (AC) and marginal cost (MC) that are both downward sloping, marginal cost pricing results in economic loss. Analyse what can the government do to allow such a monopoly to reduce economic loss? You may use suitable diagram(s) to help in your explanation.

(10 marks)

[Total: 20 marks]

END OF EXAMINATION PAPER