CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
JULY 2025 SEMESTER

COURSE CODE	:	EEB20703
COURSE NAME	:	MANAGERIAL ECONOMICS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE	:	17 SEPTEMBER 2025
TIME	:	2.00PM – 5.00PM
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 C, ONE** question from **Section B.**
5. All questions must be answered in **English** (any other language is not allowed).
6. **This question paper must not be removed from the examination hall.**
7. Only non-programmable calculators are allowed.

THERE ARE THIRTEEN (13) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

LIBRARY COPY

SECTION A (Total: 30 marks)

INSTRUCTION: Answer ALL questions.
Please use the objective answer sheet provided.

1. Explicit costs are related to _____________.
   A. owner supplied resources
   B. market supplied resources
   C. non-monetary opportunity costs of resources
   D. resources that owner of business must give up for production

2. What is the implication of a firm earning normal profit?
   A. The firm's cost is zero.
   B. The firm's accounting profit is maximised.
   C. The firm is incurring losses and should shut down.
   D. The firm is covering all its costs, including opportunity costs.

3. A firm is expected to earn economic profits of $150,000 in the first year, $130,000 in the second year, and $110,000 in the third year. After the end of the third year, the firm will cease operation. At a discount rate of 10%, what is the present value of the firm?
   A. $82,644.00
   B. $326,446.00
   C. $360,000.00
   D. $390,000.00

4. When deciding on the value of a firm, a manager must understand that _____________.
   A. the riskier the business is, the smaller the discount rate
   B. the higher the discount rate, the smaller the value of the firm
   C. cost and revenue conditions must be based on the previous period
   D. the value of the firm is the present value of the sum of the revenue flow

LIBRARY COPY

5. Principal-agent problems exist due to ________________.
   - A. difficulties in hiring qualified employees
   - B. conflicts of interest between owners and managers
   - C. the owner of a firm does not want to maximise profit
   - D. difficulties in employing the correct combinations of resources

6. When demand and supply increase simultaneously, what is expected to be the outcome in the market?
   - A. Both output and price will fall.
   - B. Both output and price will increase.
   - C. Price will increase but output cannot be determined.
   - D. Output will increase but price cannot be determined.

7. Choose the function that represents the inverse demand function of Qd = 1400 – 10P.
   - A. P = 140 – 0.1Qd
   - B. Qd = -10P + 1400
   - C. -10P = Qd + 1400
   - D. P = 1400 – Qd

8. Recently, pickleball has gained popularity as a recreational sport. Suppose the price of pickleball paddles remains constant, but the sales of pickleball balls have increased significantly. At the same time, people's incomes have also risen. What could **BEST** explain the rise in pickleball ball sales?
   - A. Pickleball balls are inferior goods, people buy more when their income increases.
   - B. Pickleball balls and paddles are substitute goods, people switch to balls when income increases.
   - C. The rise in income increases the demand for paddles, which in turn increases the demand for pickleball balls.
   - D. Pickleball balls and paddles are complement goods, people seek more recreational sport including pickleball when income increases.

LIBRARY COPY

9. Given $Qd = 680 - 9P + 0.006M - 4P_R$
   where M is income and P_R is the price of a related good, R.
   If M = $10,000 and P_R = $20.
   Choose the **CORRECT** function:
   A. P = 690 – 9Qd
   B. Qd = 690 – 9P
   C. Qd = 660 – 9P
   D. P = 680 – 9Qd

10. Suppose the demand and supply curves for good X are both linear. The demand price for the first unit of X is RM28, and the supply price for the first unit of X is RM6. If the equilibrium price for good X is RM16 and the equilibrium quantity of X is 24,000 units, then total consumer surplus is RM ________, total producer surplus is RM _________, and total social surplus is RM_____________.
    A. 28; 6; 16
    B. 144,000; 120,000; 264,000
    C. 120,000; 144,000; 264,000
    D. 672,000; 144,000; 384,000

11. For any level of activity chosen, where marginal benefit at that activity level equals to the marginal cost, then _______________.
    A. that level minimises net benefits
    B. that level maximizes net benefits
    C. if that activity is increased by one unit, net benefits will increase
    D. if that activity is decreased by one unit, net benefits will decrease

12. Activity A has the following marginal benefits and marginal cost functions:

$$MB = 150 - 5A$$

$$MC = 40 + 3A$$

    The optimal level of A^* is _________.

A.	95.50	C.	13.75
B.	33.33	D.	10.00

LIBRARY COPY

13. A decision maker is choosing the levels of two activities, A and B, so as to maximize total benefits under a given budget. The prices and marginal benefits of the last units of A and B are denoted as P_A, P_B, MB_A, and MB_B.

    If P_A = \$20, P_B = \$15, MB_A = 400, and MB_B = 600, what should the decision maker do?

    A. Use less A and more B while keeping the budget constant.
    B. Use more A and less B while keeping the budget constant.
    C. Keep the quantity of A unchanged but increase the quantity of B.
    D. Increase the budget while using more A and more B at the same time.

14. Washing detergents that have many close substitutes is likely to exhibit:

    A. A high coefficient of price elasticity of demand.
    B. A low coefficient of cross price elasticity of demand.
    C. Income elasticity of demand that has a negative sign.
    D. A weak response in quantity demanded to a price change.

15. Market research shows that when income increased by 10%, quantity demanded of premium coffee brand increased by 15%. What can be said about this?

    A. Premium coffee is an inferior good.
    B. Premium coffee is a normal good with inelastic income elasticity.
    C. Premium coffee is a luxury good with income elasticity more than one.
    D. The consumers for premium coffee are not responsive to a price change.

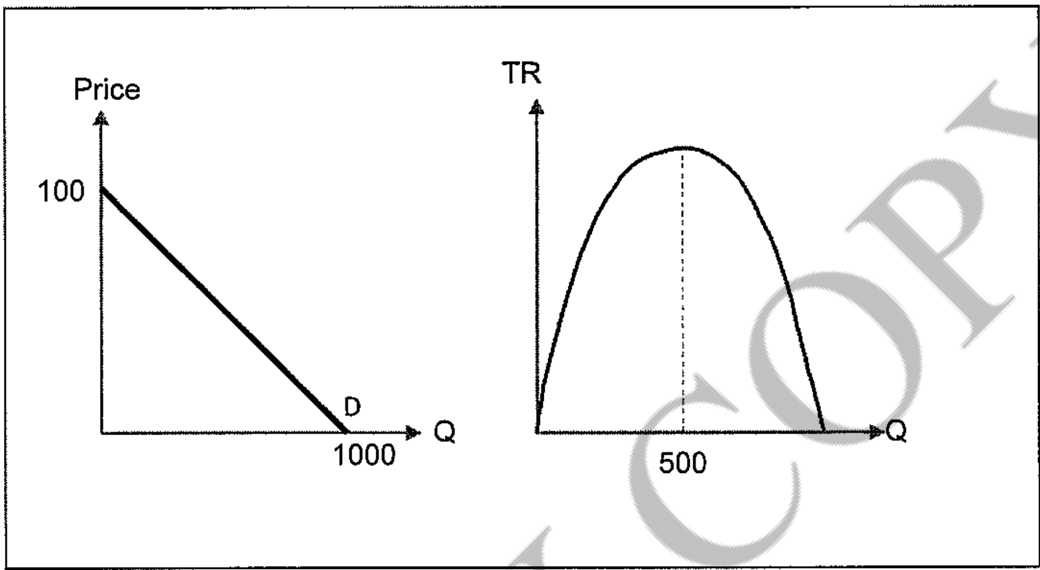
16. A local bookstore reduces the price of a bestselling novel from RM50 to RM35. Following the price cut, the store experiences a significant increase in the number of books sold, and total revenue from the novel also rises. Which of the following is most likely **TRUE**?

    A. The demand for novels is price elastic.
    B. The demand for novels is price inelastic.
    C. The novel has become an inferior good.
    D. There is no relationship between elasticity and total revenue in this case.

LIBRARY COPY

17. Figure 1 shows a linear demand curve and the associated total revenue curve. The price at which total revenue is maximised is ___________.

Figure 1. Demand curve and the associated total revenue curve



A. 10
B. 25
C. 50
D. 100

18. A production function measures the relation between ___________.

A. input prices and output prices
B. the quantity of inputs and input prices
C. input prices and the quantity of output
D. the quantity of inputs and the quantity of output

19. Malaysian Airline flies passengers between Kuala Lumpur and Beijing, making one round-trip daily using a leased Boeing 737 aircraft. Which of the following is a fixed cost?

A. Expenditure on jet fuel.
B. Labour expenses for pilots.
C. Cost of in-flights snacks and beverages for passengers.
D. Monthly lease payment for the lease of Boeing 737 during the term of the lease.

LIBRARY COPY

20. A firm plans to produce 1,000 units per day of good X. The firm's production engineer finds two technically efficient processes (i.e., input combinations of labour and capital) to produce 1,000 units per day as shown in figure 2.

Figure 2. Combinations of labour and capital

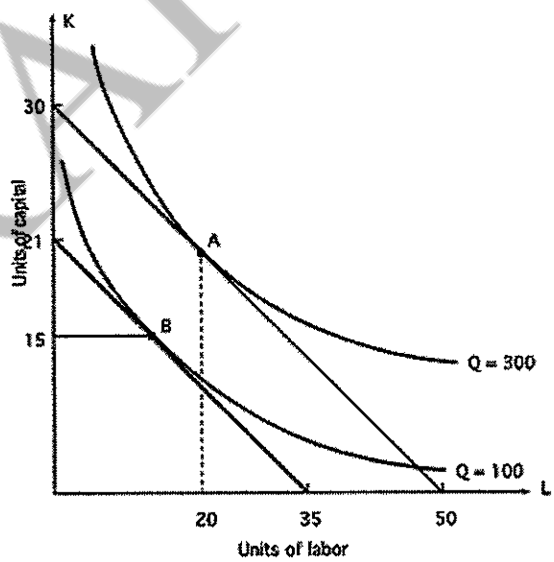
	Process 1	Process 2
Labour	10	8
Capital	20	25

If the firm must pay RM200 per day for a unit of labour and RM100 per day for a unit of capital, which process is economically efficient?

A. Process 1 is economically efficient.
B. Process 2 is economically efficient.
C. Both process 1 and process 2 are equally economically efficient.
D. Process 1 and 2 are technically efficient but economically inefficient.

21. Refer to figure 3 below.

Figure 3. Isoquant and isocost



The price of labour is RM3 per unit, the price of capital is RM5 per unit. How many units of capital are used to produce 300 outputs at minimum cost?

A. 18
B. 19
C. 20
D. 21

LIBRARY COPY

22. The marginal rate of technical substitution is ____________.
    - A. the slope of the isocost curve
    - B. the slope where two isoquants cross each other
    - C. the rate at which the firm can substitute labor for capital while holding output constant
    - D. the rate at which the firm can substitute labor for capital while holding total cost constant

23. Which of the following is **NOT** a characteristic of long-run equilibrium for a perfectly competitive firm?
    - A. Firm earns only normal profit.
    - B. Price is equal to long-run marginal cost.
    - C. Price is greater than long-run average cost.
    - D. The firm produces the output level at which long-run average cost is at its minimum.

24. For a price-taking firm, marginal revenue _________________.
    - A. has unitary price elasticity of demand
    - B. is equal to market price at any level of output
    - C. is downward sloping below the demand curve
    - D. is the addition to total revenue from using one more unit of input

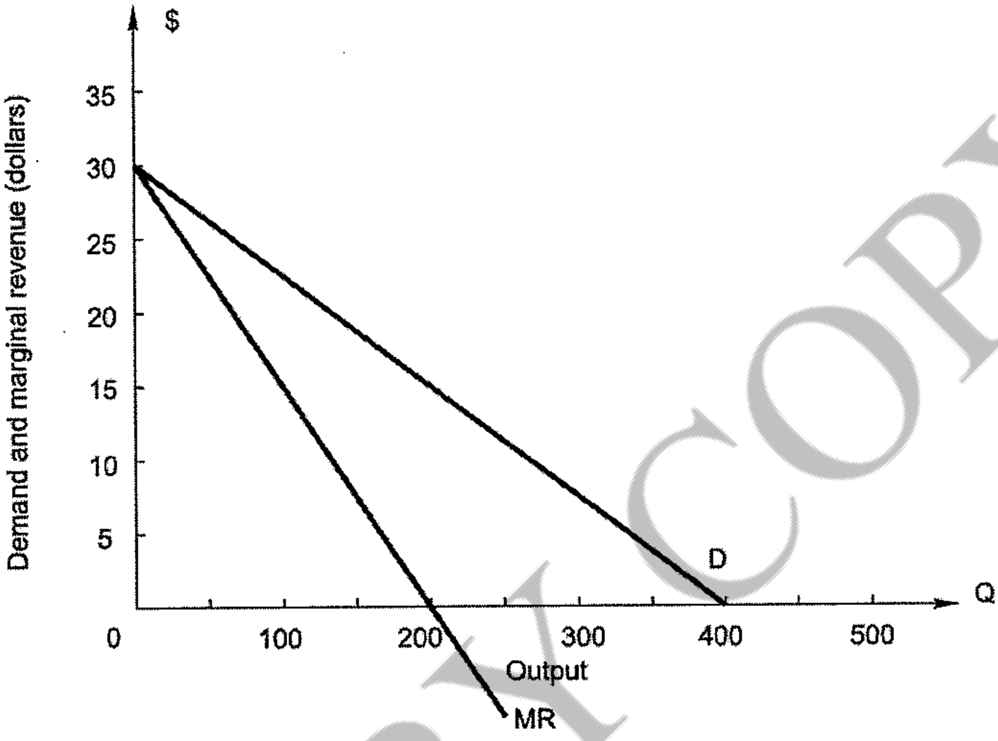
25. Which of the following is a characteristic of a monopoly market?
    - A. Entry into the market is easy.
    - B. The firm always make economic profit.
    - C. The firm has to lower price to sell more quantity.
    - D. One firm is the only buyer of all the resources in the market.

26. To maximize profit, a firm with market power will employ an input up to the point where the ____________.
    - A. marginal product of the input is at its maximum
    - B. input's contribution to total output is equal to its purchase price
    - C. total cost of the input equals the total revenue generated by its use
    - D. marginal revenue product of the input equals the marginal cost of hiring the input

LIBRARY COPY

27. Refer to figure 4, which shows demand and marginal revenue for a monopoly.

Figure 4: Demand and marginal revenue for a monopoly



Unitary price elasticity of demand will be around the price of ________.

A. $5

B. $35

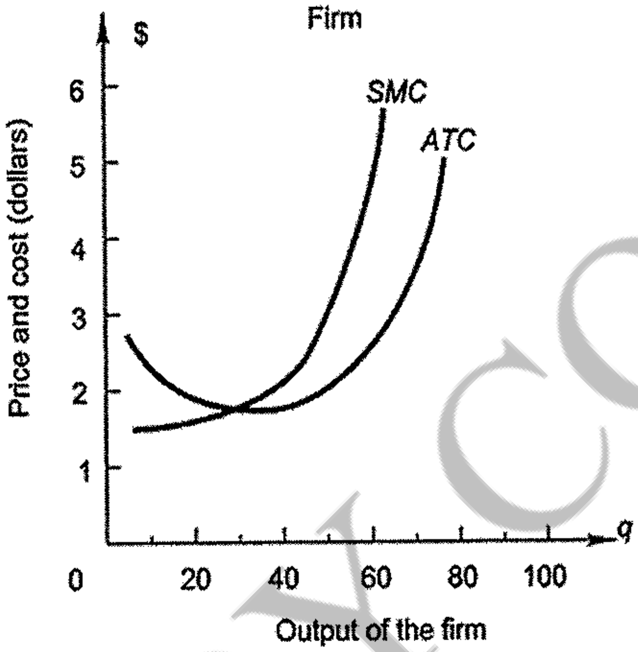
C. $15

D. $25

LIBRARY COPY

28. Refer to figure 5, which shows the short run cost curves for a firm in a perfectly competitive market. What is the maximum amount of profit the firm can earn if the price is $3?

Figure 5. Short run cost of a firm in the market of perfect competition



A. $45
B. $50
C. $100
D. $150

29. When firms in an oligopoly market make decisions while anticipating and responding to the potential actions of their competitors, this is known as _________.
   A. game theory
   B. independence
   C. strategic behavior
   D. cooperative behavior

30. A firm may deliberately set a price below the level that maximizes short-run profit in order to _________________.
   A. avoid government regulation
   B. signal low production costs to consumers
   C. create a perception of high market efficiency
   D. deter potential competitors from entering the market

LIBRARY COPY

SECTION B (Total: 10 marks)

INSTRUCTION: Answer ONE out of two questions.
Please use the answer booklet provided.
Label your question correctly.

Question 1A

(a) Explain price elasticity of demand.
(4 marks)

(b) Explain **TWO** factors that affect the price elasticity of demand for vegetables.
(6 marks)

Question 1B

(a) Explain price elasticity of supply.
(4 marks)

(b) Explain **TWO** factors that affect the price elasticity of supply for vegetables.
(6 marks)

LIBRARY COPY

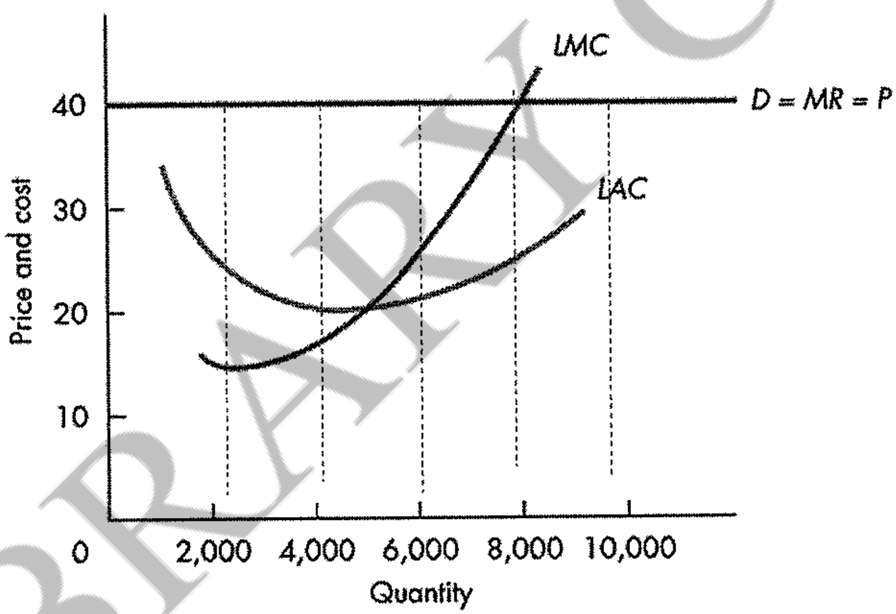
SECTION C (Total: 60 marks)

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

Question 2

(a) Figure 6 below shows long-run average and marginal cost curves for a competitive firm. (Dotted lines are added to help in reading the graph.)
Calculate the economic profit at the profit maximisation quantity. Show steps of calculation and economic concepts applied.

Figure 6. Long run cost of a competitive firm



(10 marks)

(b) Based on figure 6, when the industry attains long-run competitive equilibrium, explain what the price, firm's output and economic profit will be. (Hint: use the characteristic of barrier to entry to help in your explanation.)

(10 marks)

LIBRARY COPY

Question 3

(a) Explain the market structure of oligopoly and monopoly. What are the main differences between these two in terms of pricing strategy?

(10 marks)

(b) With the aid of appropriate diagram(s), explain why firms in monopolistic competition earn only normal profit in the long run, despite having some market power.

(10 marks)

Question 4

Table 1 below shows the amount of total output produced from various combinations of labour and capital.

Table 1. Total output, units of labour and units of capital used

Units of labour	Units of capital			
	1	2	3	4
1	50	120	160	180
2	110	260	360	390
3	150	360	510	560
4	170	430	630	690

(a) Write the formula for marginal product (MP) and average product (AP) of labour when unit of labour equals 3 and the units of capital equals 3. Show the steps of calculation and the answers.

(6 marks)

(b) Is the above table showing short-run or long-run production? Explain.

(3 marks)

(c) Prepare a table for marginal product and average product when capital is held constant at 2 units. (Hint: calculate the MP and AV for each unit of labour when capital equals 2.)

(5 marks)

(d) Describe the relationship between marginal product and average product. Sketch a diagram based on the answers in (c) above and explain.

(6 marks)

END OF QUESTION PAPER

LIBRARY COPY