



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION

JANUARY 2016 SEMESTER

SUBJECT CODE : EIB11603
SUBJECT TITLE : PRINCIPLES OF MICROECONOMICS
LEVEL : BACHELOR
TIME / DURATION : 2:00 PM – 5:00 PM (3 HOURS)
DATE : 31 MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consists of SEVEN (7) questions. Answer ALL questions.
4. Please write your answers in the answer booklet provided.
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.

THERE ARE THREE (3) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

Question 1

Explain the differences between each of the following terms:

- a. Individual demand and market demand.
- b. Production function and isoquant.
- c. Price elasticity of demand and cross price elasticity of demand.

(15 marks)

Question 2

Ahmed allocates his lunch budget between two goods; pizza and hamburger.

- a. Illustrate Ahmed's optimal bundle on a graph with pizza on the horizontal axis. Explain your answer.
- b. Suppose now that pizza is taxed, causing the price to increase by 20 percent. Illustrate Ahmed's new optimal bundle and explain your answer.

(10 marks)

Question 3

The following table contains information for a price taking competitive firm.

Output (Q)	Total Cost (TC)	Marginal Cost (MC)	Fixed Cost (FC)	Average Cost (AC)	Total Revenue (TR)	Average Revenue (AR)	Marginal Revenue (MR)
0	5	--		--	0	--	
1	7				10		
2	11				20		
3	17				30		
4	27				40		
5	41				50		
6	61				60		

Note: Please re-write the above table into your answer sheet.

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- a. Fill in the blanks in the table.
- b. Determine the profit maximizing level of output (round your answer to the nearest whole number). Please explain your answer.

(15 marks)

Question 4

Suppose there are 1,000 burger stalls operating in Kuala Lumpur. Each stall has the usual U-shaped average total cost (ATC) curve. The market demand curve for burgers slopes downward, and the market for burgers is in long-run competitive equilibrium.

- a. Draw the current equilibrium, using graphs for the entire market and for individual burger stall. Explain your answer.
- b. The city decides to restrict the number of burger stall licenses, reducing the number of stalls to only 800. What effect will this action have on the market and on an individual stall that is still operating? Draw graphs to illustrate your answer.

(15 marks)

Question 5

Use an appropriate diagram to explain why would a firm that incurs losses in the short-run choose to produce rather than shut down?

(15 marks)

Question 6

- a. Explain TWO (2) differences in characteristics of monopoly and monopolistically competitive markets.
- b. Suppose all firms in a monopolistically competitive industry were merged into one large firm. Would that new firm produce as many different brands? Would it produce only a single brand? Explain.

(15 marks)

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Question 7

- a. Draw the demand, marginal revenue, and marginal cost curve for a monopolist. Show the profit-maximizing level of output. Show the profit-maximizing price.
- b. In your diagram from part (a), show the level of output that maximizes total surplus (i.e. consumer surplus and producer surplus). Show the deadweight loss from the monopoly. Explain your answer.

(15 marks)

[Total: 100 marks]

END OF QUESTION PAPER