UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION

OCTOBER 2025 SEMESTER

COURSE CODE	:	EGB10403
COURSE TITLE	:	INTERMEDIATE MICROECONOMICS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE	:	31 JANUARY 2026
TIME	:	2:00PM - 5:00PM
DURATION	:	3 HOURS

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 consist of ONE sections.
4. Section A consist of five questions. Answer FOUR (4) questions only.
5. Please write your answer on the answer booklet provided.
6. Please answer all questions in English only.
7. Refer to the attached Formula/ Appendies. ☐ *Tick if applicable*

THERE ARE 5 PAGES OF QUESTIONS INCLUDING THIS PAGE

SECTION A (Total: 100 marks)

Answer FOUR (4) questions.

Please use the answer booklet provided.

Question 1

Explain the concept of "adverse selection" and "problem of lemons". Illustrate the answers with appropriate examples from insurance and used-cars markets respectively. Discuss the solutions available to solve adverse selection.

(25 marks)

Question 2

Answer ALL the questions pertaining to market structure of monopoly.

(a) Use a diagram of cost curves to explain how a monopolist determines price and output while earning a positive economic profit. Explain why the firm continues to earn economic profit even in the long run.

(9 marks)

(b) Discuss why government allows multiple price system rather than marginal cost pricing on a monopolist.

(16 marks)

Question 3

Answer ALL the questions pertaining to imperfect market.

(a) Suppose there are two firms producing bottled mineral water. Each firm has a large supply of mineral water and faces the problem of how much to provide the market. A firm's cost of processing and bottling q_i liters is $C_i(q_i) = cq_i$, implying that marginal costs are a constant c per liter. Inverse demand for mineral water is $P(Q) = a - Q$, where a is the intercept, and total mineral water output, $Q = q_1 + q_2$. (State your assumptions and the symbols used clearly.)

i. Use the Bertrand model to determine the total output and total market profit.

(6 marks)

ii. Use the Cournot model to determine the total output and total market profit.

(9 marks)

(b) Discuss the long run equilibrium of firms in monopolistic competition from the aspects of efficiency.

(10 marks)

Question 4

Answer ALL the questions pertaining to market for input factor.

(a) Equilibrium in labour market is achieved at $MRP_L = ME_L$. Sketch a diagram to show the equilibrium in labour market with upward sloping supply curve of labour. Explain the diagram clearly and show that a monopsonist buys less labour than if the labour market were perfectly competitive.

(9 marks)

(b) Supposed a coal mine's workers can dig two tons of coal per hour and coal sells for $10 per ton. If the coal miner is the only hirer of miners in a local area and faces a labour supply curve of the form $l = 50w$. Use the condition of $MRP_L = ME_L$, determine the number of workers to hire per hour.

(8 marks)

(c) Discuss the advantages and disadvantages of workers joining a union.

(8 marks)

Question 5

Public goods are normally provided by the government instead of being produced by private firms in free market.

(a) Explain how 'free riding' causes market failure in the provision of public goods.

(5 marks)

(b) Assume there are only two consumers in the society. Their demand functions are given as $P_1 = 100 - 3q$ and $P_2 = 400 - 10q$. These functions show the maximum amount of money each person would willingly pay for each unit of the public good, q. Sketch the demand functions in a same diagram. If the marginal cost of providing the public good is $20, what is the optimal quantity of the public good for society to produce? Indicate on the diagram and explain the workings.

(12 marks)

(c) Explain the Lindahl solution to the public goods problem. What are the limitations of the Lindahl solution?

(8 marks)

END OF EXAMINATION PAPER