

**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2025 SEMESTER**

COURSE CODE	: EEB20703
COURSE NAME	: MANAGERIAL ECONOMICS
PROGRAMME NAME	: BACHELOR OF BUSINESS ADMINISTRATION (HONS) IN INTERNATIONAL BUSINESS
DATE	: 26 JANUARY 2026
TIME	: 09.00 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 **TWO (2)** sections; Section A and Section B.
4. Answer **ALL** questions.
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 calculator is allowed.

THERE ARE FOURTEEN (14) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 30 marks)**INSTRUCTION: Answer ALL questions.****Please use the objective answer sheet provided.**

1. In a monopolistic competition market, one of the assumptions is _____.
 - A. each firm produces similar but not identical products
 - B. suppliers have more information than the consumers
 - C. both consumers and suppliers have perfect information
 - D. asymmetric information between the principal and agent

2. What is the implication of a firm earning zero economic profit?
 - A. The firm's accounting profit is zero or negative.
 - B. The firm is incurring losses and should shut down.
 - C. The firm is earning more than a normal return on its capital.
 - D. The firm is covering all its costs, including opportunity costs.

3. Which of the following is an example of implicit cost for a small business owner?
 - A. Rental payment for the office space.
 - B. Interest paid on a business loan used to finance startup cost.
 - C. Wages paid to employees for their daily work and overtime hours.
 - D. The forgone salary the owner could have earned working for another company.

4. A firm is expected to earn economic profits of \$100,000 in the first year, \$120,000 in the second year, and \$100,000 in the third year. After the end of the third year, the firm will cease operation. Calculate the present value of the firm.
 - A. \$313,703.00
 - B. \$345,789.00
 - C. \$360,000.00
 - D. \$390,000.00

5. When a decision maker decides to choose an activity where marginal benefit at that activity level equals to the marginal cost, then _____.
- A. this level minimises net benefits
 - B. this level maximizes net benefits
 - C. if the activity is increased by one unit, net benefits will increase
 - D. if the activity is decreased by one unit, net benefits will decrease

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

$$MB = 100 - 6A$$

$$MC = 40 + 2A$$

The optimal level of A^* is _____.

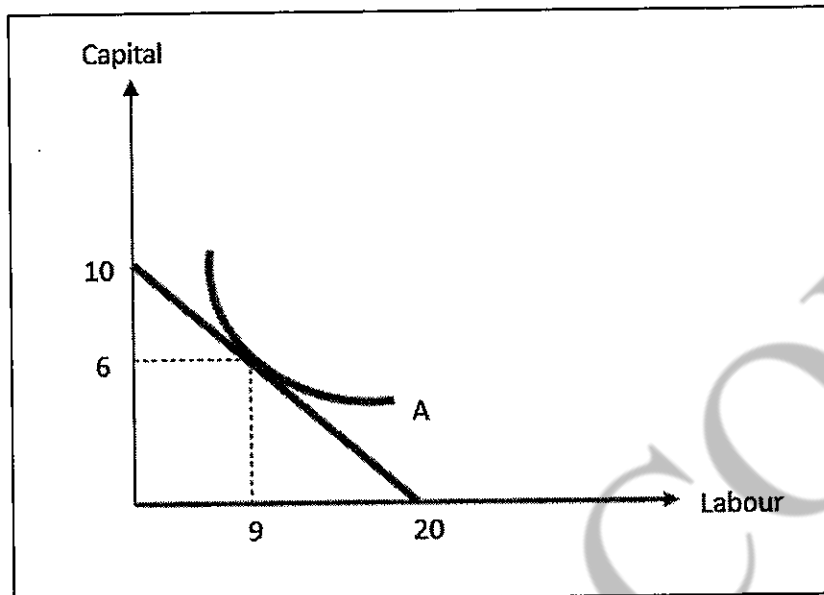
- A. 4.5
 - B. 7.5
 - C. 6.7
 - D. 10
7. A product that has many close substitutes is likely to exhibit:
- A. inelastic income elasticity of demand.
 - B. a low cross price elasticity with related goods.
 - C. a weak response in quantity demanded to a price change.
 - D. a highly responsive quantity demanded when its price changes.

8. Income elasticity of demand measures _____.
- A. the responsiveness of quantity demanded to change in income, holding other factors constant
 - B. the responsiveness of quantity supplied when income changes, assuming price remains constant
 - C. how much income will change when the price of a product changes, ceteris paribus.
 - D. whether income is influenced by consumer preferences for normal or inferior goods

15. A firm produces 4,000 units of output using 500 workers. Marginal cost is \$10, the wage rate is \$160, and total fixed cost is \$100,000. When output is 4,000 units _____.
- A. average variable cost is decreasing
 - B. average variable cost is increasing
 - C. average total cost is increasing.
 - D. average total cost is constant.
16. A technician shows two technically efficient processes to you. Process 1 uses 10 labour and 5 capitals, process 2 uses 6 labour and 8 capitals. Which of the following is **CORRECT**?
- A. You should always choose the process that uses the least labour.
 - B. The costs of labour and capital do not affect your decision on which process to choose.
 - C. Both the processes are technically efficient, but they may not be equally efficient economically.
 - D. You do not need to consider the costs of labour or capital in choosing which method to use.
17. For an airline company that provides snacks and beverages for passengers during the flight, the costs of snacks and beverages are _____.
- A. Variable costs because they depend on the number of passengers.
 - B. Quasi-fixed costs because they are incurred only when they are used.
 - C. Fixed costs because passengers already paid for them in the ticket prices.
 - D. Sunk costs because they are purchased in advance by the airline company.
18. 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

Refer to figure 2 and answer questions 19, 20 and 21.

Figure 2. Combinations of capital and labour

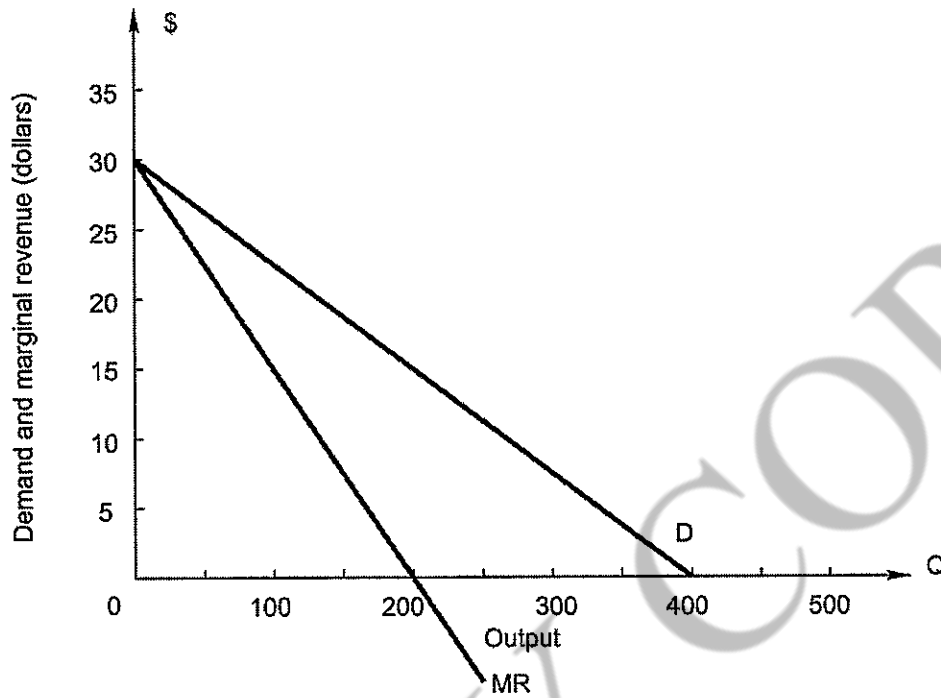


19. Choose the **CORRECT** label for "A" in the diagram.
- Isocost
 - Isoquant
 - Indifference curve
 - Production possibility curve
20. When each labour costs \$100 per hour, what is the total spending per hour of the firm employing 6 capital and 9 labour?
- \$900
 - \$1000
 - \$2000
 - \$6000
21. What is the cost of capital per hour?
- \$100
 - \$200
 - \$300
 - \$500

22. Which of the following is a characteristic of long-run equilibrium for a perfectly competitive firm?
- A. Firm is earning zero economic profit.
 - B. Price is greater long-run marginal cost.
 - C. Price is greater than long-run average cost.
 - D. The firm produces the output level at which long-run marginal cost is at its minimum.
23. For a price-taking firm, marginal revenue _____.
- A. is perfectly inelastic
 - B. decreases as the firm produces more output
 - C. is equal to market price at any level of output
 - D. is the addition to total revenue from using one more unit of input
24. Which of the following is a characteristic of a monopoly market?
- A. Entry into the market is easy.
 - B. The firm decides the market price.
 - C. The firm always make economic profit.
 - D. One firm is the only buyer of all the resources in the market.
25. 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

Refer to figure 3 and answer questions 26 and 27.

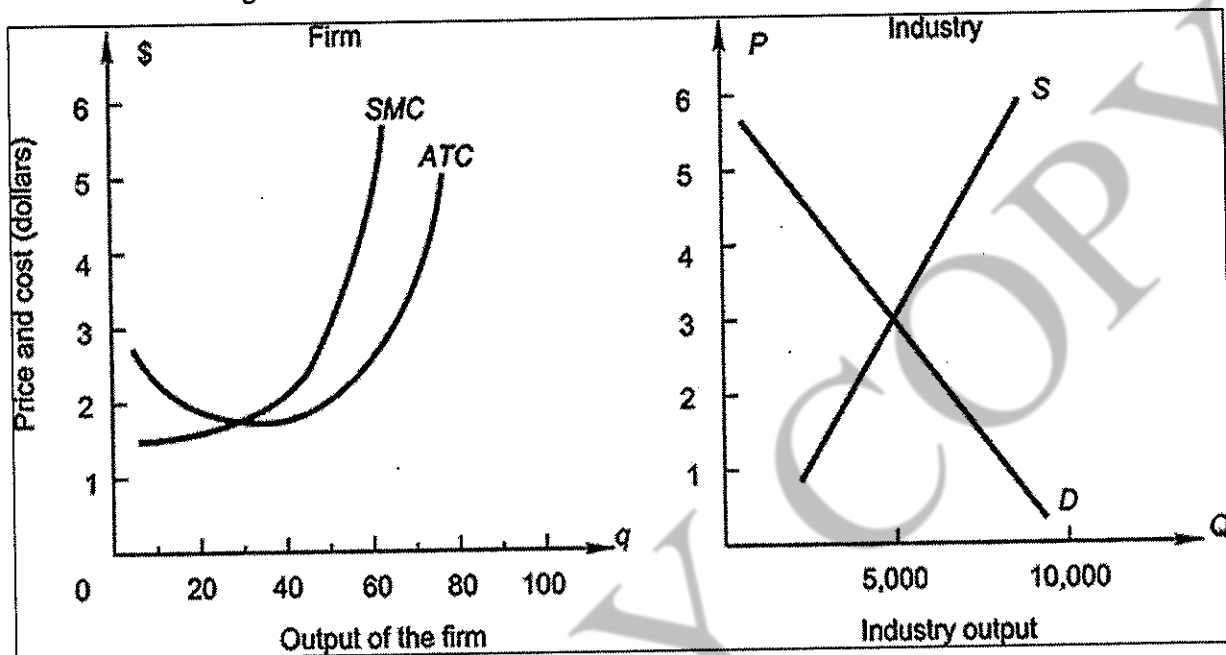
Figure 3: Demand and marginal revenue for a monopoly



26. Demand is elastic above this price level. Identify the price.
- | | |
|---------|---------|
| A. \$5 | C. \$15 |
| B. \$10 | D. \$20 |
27. If the marginal cost is \$20, the price charged by the monopolist would be _____.
- | | |
|---------|---------|
| A. \$20 | C. \$30 |
| B. \$25 | D. \$35 |

28. Referring to figure 4, the graph on the left shows the short run cost curves for a firm in a perfectly competitive market, and the graph on the right shows the current market conditions in this industry. What is the maximum amount of profit the firm can earn?

Figure 4. 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

SECTION B (Total: 70 marks)

INSTRUCTION: Answer all questions.

Please use the answer booklet provided.

Question 1 (10 marks)

- (a) Explain 'constrained optimisation' and 'unconstrained optimisation'. (4 marks)
- (b) You are hiring a part-time promoter to your satay at a weekend booth. Based on trial performances, you estimate the following daily output and wages demanded.
- Ah Chong can sell 800 units and asked for RM400/day
 - Bella can sell 700 units and asked for RM280/day
 - Kelvin can sell 600 units and asked for RM200/day

Without knowing the actual cost of a unit of satay, explain how you decide who to hire. (6 marks)

Question 2 (15 marks)

A firm in a perfectly competitive market is facing a market price of RM12 per unit. The firm is currently producing 50 units of output. At this output level, the marginal cost (MC) is RM15, average total cost (ATC) is RM14, and average variable cost (AVC) is RM7.

- (a) Sketch a diagram showing the MC, ATC, AVC and MR. (5 marks)
- (b) Is the firm maximising profit at this level of output? Explain. (5 marks)
- (c) If you are the manager, would you shut down or continue to produce? Justify your answer. (5 marks)

QUESTION 3 (15 marks)

Table 2 shows the demand schedule for a product.

Table 2. Demand schedule

Price (RM per unit)	Quantity demanded
11	200
10	400
7	1000
5	1400
3	1800

- (a) Using the midpoint approach, compute the price elasticity of demand for the following price ranges. Determine whether the price is elastic or inelastic. Clearly show the formula and working.
- Between RM 3.00 and RM 5.00
 - Between RM 10.00 and RM 11.00
- (9 marks)
- (b) Being a manager, when you realised the current price is within the inelastic price range, would you increase your price to increase the total revenue? State your decision clearly based on the relationship between price elasticity of demand and total revenue change.
- (6 marks)

QUESTION 4 (15 marks)

- (a) Explain the difference between 'short run' and 'long run' in production. (4 marks)
- (b) A factory currently has two machines. Due to financial constraints, they are not able to install more machine however, they are able to hire more workers. Refer to table 3 and calculate the average product and marginal product for $L = 3$ and $L = 6$. Show the formula and the steps of calculation. Write the answers to **m**, **n**, **p** and **q** in the answer booklet. (Do not copy the table.)

Table 3. Change in total product and change in number of workers using two machines for production.

Number of workers (L)	Total product (Q)	Average product	Marginal product
0	0	-	-
1	52	52	52
2	112	56	60
3	176	m	n
4	220	55	44
5	230	46	10
6	220	p	q

(8 marks)

- (c) There are two possibilities to produce 220 units by employing 4 workers or 6 workers. What is the economically efficient amount of labour to hire in this case? Explain.

(3 marks)

Question 5 (15 marks)

(a) Explain why a monopolist is able to engage in price discrimination, whereas a firm in a perfectly competitive market cannot.

(10 marks)

(b) Describe the concept of 'third degree price discrimination' with a relevant example.

(5 marks)

END OF EXAMINATION PAPER