



**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER II  
SESSION 2011/2012**

COURSE NAME : ECONOMICS  
COURSE CODE : BPA 10103 / BPA 1013  
PROGRAMME : 1 BPB / 1 BPA  
EXAMINATION DATE : JUNE 2012  
DURATION : 3 HOURS  
INSTRUCTION : ANSWER ALL QUESTIONS

SECTION A  
USE OMR FORM

SECTION B  
USE ANSWER BOOKLET

THIS QUESTION PAPER CONSISTS OF TEN (10) PAGES

**SECTION A (40 marks)**  
**(MULTIPLE CHOICE QUESTIONS)**

- Q1.** The study of economics is primarily concerned with:  
(A) keeping private businesses from losing money.  
(B) demonstrating that capitalistic economies are superior to socialistic economies.  
(C) choices that are made in seeking the best use of resources.  
(D) determining the most equitable distribution of society's output.
- Q2.** A person should consume more of something when its marginal:  
(A) benefit exceeds its marginal cost.  
(B) cost exceeds its marginal benefit.  
(C) cost equals its marginal benefit.  
(D) benefit is still positive.
- Q3.** Tini was out jogging and despite being tired, decided to run one more mile. Based on her actions, economists would conclude that Tini:  
(A) must be an avid runner.  
(B) decided that the marginal benefit of running one more mile would outweigh the cost of the additional mile.  
(C) decided that the marginal cost of running one more mile would outweigh the benefit of the additional mile.  
(D) was not very tired, so the marginal cost of the extra mile was very low.
- Q4.** When an economy is operating under conditions of full employment, the production of more of commodity A will mean the production of less of commodity B because:  
(A) of the law of increasing opportunity costs.  
(B) economic wants are insatiable.  
(C) resources are limited  
(D) resources are specialized and only imperfectly substitutable.
- Q5.** Competition is more likely to exist when:  
(A) There is easy entry into and exit out of industries  
(B) A government-issued license is required to set up a firm in an industry  
(C) The government purchases most goods and services  
(D) Economic power is concentrated among a few large firms
- Q6.** A market demand schedule for a product would indicate that:  
(A) As the product's price falls, consumers buy less of the product  
(B) As buyers' incomes rise, they will buy more of the product  
(C) If buyers demand more of the product, then its price would rise  
(D) There is an inverse relationship between price and quantity demanded
- Q7.** An increase in the price of product B leads to an increase in the demand for product (C) This indicates that products B and C are:  
(A) Complementary goods  
(B) Substitute goods  
(C) Inferior goods  
(D) Normal goods

- Q8.** Suppose that a more efficient way to produce a good is discovered, thus lowering production costs for the good. This will cause an:
- (A) Increase in supply, or a rightward shift of the supply curve
  - (B) Decrease in supply, or a leftward shift of the supply curve
  - (C) Increase in quantity supplied, or movement down the supply curve
  - (D) Decrease in quantity supplied, or movement up the supply curve
- Q9.** If an economy is being "productively efficient," then that means the economy is:
- (A) Producing the products most wanted by society
  - (B) Fully employing all economic resources
  - (C) Maximizing the returns to factors of production
  - (D) Using the least costly production techniques
- Q10.** Allocative efficiency means that:
- (A) The law of increasing opportunity costs has reached a maximum
  - (B) The least costly methods are being used to produce a product
  - (C) Resources are being devoted to the production of products most desired by society
  - (D) The amount of other products which must be sacrificed to obtain production of a given product is at a minimum
- Q11.** If a 5 percent cut in the price of a product causes the quantity demanded to rise by 10 percent, the demand is:
- (A) Inelastic
  - (B) Elastic
  - (C) Unit elastic
  - (D) Perfectly elastic
- Q12.** You are the only seller of eggs in town, and the price-elasticity coefficient for eggs is known to be 0.8. If you want to increase your sales quantity by 10% through a price-change, what should you do to price?
- (A) Increase price by 12.5%
  - (B) Reduce price by 12.5%
  - (C) Increase price by 8%
  - (D) Reduce price by 8%
- Q13.** Which best expresses the law of diminishing marginal utility?
- (A) The more of a product is consumed, the smaller is the total utility from the product
  - (B) The less of a product is consumed, the greater is the marginal utility of the product
  - (C) The more of a product is consumed, the greater is the total utility from the product
  - (D) The less of a product consumed, the smaller is marginal utility of the product
- Q14.** Suppose a consumer has an income of \$16, the price of A is \$2, and the price of B is \$1. Which of the following combinations is on the consumer's budget line?
- (A) 4A and 9B
  - (B) 5A and 6B
  - (C) 6A and 6B
  - (D) 3A and 8B

Answer the next question(s) based on the table below showing the marginal utility schedules for product X and product Y for a hypothetical consumer. The price of product X is \$4 and the price of product Y is \$2. The income of the consumer is \$20.

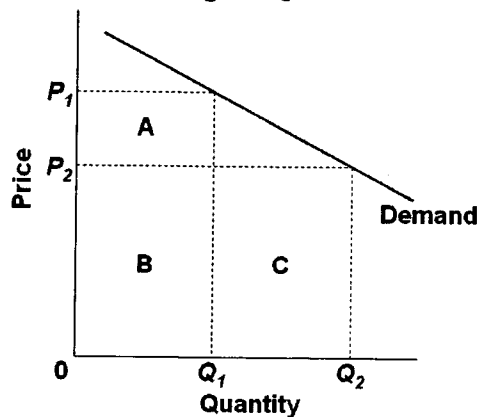
**Table Q15**

| Product X |                 | Product Y |                 |
|-----------|-----------------|-----------|-----------------|
| Quantity  | MU <sub>x</sub> | Quantity  | MU <sub>y</sub> |
| 1         | 32              | 1         | 24              |
| 2         | 28              | 2         | 20              |
| 3         | 24              | 3         | 16              |
| 4         | 20              | 4         | 12              |
| 5         | 16              | 5         | 8               |

- Q15.** Refer to the **Table Q15**. If the consumer buys both product X and product Y, how much will the consumer buy of each to maximize utility?
- (A) 4X and 2Y  
 (B) 3X and 4Y  
 (C) 4X and 3Y  
 (D) 5X and 3Y
- Q16.** Refer to the **Table Q15**. When the consumer purchases the utility-maximizing combination of product X and product Y, total utility will be:
- (A) 72  
 (B) 84  
 (C) 136  
 (D) 156
- Q17.** Which of the following is most likely to be an implicit cost for Company X?
- (A) forgone rent from the building owned and used by Company X  
 (B) rental payments on IBM equipment  
 (C) payments for raw materials purchased from Company Y  
 (D) transportation costs paid to a nearby trucking firm
- Q18.** To economists, the main difference between the short run and the long run is that:
- (A) the law of diminishing returns applies in the long run, but not in the short run.  
 (B) in the long run all resources are variable, while in the short run at least one resource is fixed  
 (C) fixed costs are more important to decision making in the long run than they are in the short run.  
 (D) in the short run all resources are fixed, while in the long run all resources are variable.
- Q19.** If a variable input is added to some fixed input, beyond some point the resulting extra output will decline. This statement describes:
- (A) economies and diseconomies of scale.  
 (B) X-inefficiency.  
 (C) the law of diminishing returns.  
 (D) the law of diminishing marginal utility.

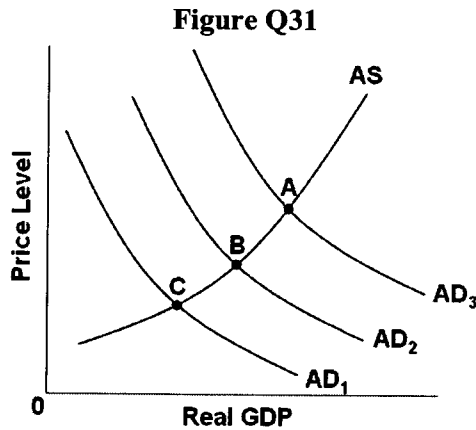
- Q20.** Economies of scale are indicated by:  
 (A) the rising segment of the average variable cost curve.  
 (B) the declining segment of the long-run average total cost curve.  
 (C) the difference between total revenue and total cost.  
 (D) a rising marginal cost curve.
- Q21.** In which *two* market models would advertising be used most often?  
 (A) Pure competition and monopolistic competition  
 (B) Pure competition and pure monopoly  
 (C) Monopolistic competition and oligopoly  
 (D) Pure monopoly and oligopoly
- Q22.** The production of agricultural products such as wheat or corn would best be described by which market model?  
 (A) Monopolistic competition  
 (B) Pure competition  
 (C) Pure monopoly  
 (D) Oligopoly
- Q23.** If a purely competitive firm is producing at the  $MR = MC$  output level and earning an economic profit, then:  
 (A) the selling price for this firm is above the market equilibrium price.  
 (B) new firms will enter this market.  
 (C) some existing firms in this market will leave.  
 (D) there must be price fixing by the industry's firms.
- Q24.** Price discrimination refers to:  
 (A) selling a given product for different prices at two different points in time.  
 (B) any price above that which is equal to a minimum average total cost.  
 (C) the selling of a given product at different prices that do not reflect cost differences.  
 (D) the difference between the prices a purely competitive seller and a purely monopolistic seller would charge.

**Figure Q25**



- Q25.** Refer to the **Figure Q25**. If price is reduced from  $P_1$  to  $P_2$ , total revenue will:  
 (A) increase by A minus C  
 (B) increase by C minus A  
 (C) decrease by A minus C  
 (D) decrease by C minus A

- Q26.** The characteristic most closely associated with oligopoly is:  
 (A) Easy entry into the industry  
 (B) A few large producers  
 (C) Product standardization  
 (D) No control over price
- Q27.** A major prediction of the kinked demand curve model is:  
 (A) Price stability in oligopolies  
 (B) Price instability in oligopolies  
 (C) Stability of production costs in oligopolies  
 (D) Instability of costs in oligopolies
- Q28.** GDP is the market value of:  
 (A) Resources (land, labor, capital, and entrepreneurship) in an economy in a given year  
 (B) All final goods and services produced in an economy in a given year  
 (C) Consumption and investment spending in an economy in a given year  
 (D) All output produced and accumulated over the years
- Q29.** Nominal GDP differs from real GDP because:  
 (A) Nominal GDP is based on constant prices  
 (B) Real GDP is based on current prices  
 (C) Real GDP results from adjusting for changes in the price level  
 (D) Nominal GDP results from adjusting for changes in the price level
- Q30.** When the Federal government uses taxation and spending actions to stimulate the economy, it is conducting:  
 (A) Fiscal policy  
 (B) Income policy  
 (C) Monetary policy  
 (D) Employment policy



- Q31.** Refer to the **figure Q31**. The economy is at equilibrium at point *(B)* What would expansionary fiscal policy do?  
 (A) Shift aggregate demand from  $AD_2$  to  $AD_1$   
 (B) Shift aggregate demand from  $AD_2$  to  $AD_3$   
 (C) Move the economy from point B downward along  $AD_2$   
 (D) Move the economy from point B upward along  $AD_2$

- Q32.** You are given the following information about aggregate demand at the existing price level for an economy: (1) consumption = \$400 billion; (2) investment = \$40 billion; (3) government purchases = \$90 billion; and (4) net export = \$25 billion. If the full-employment level of GDP for this economy is \$600 billion, then what combination of actions would be most consistent with closing the GDP-gap here?
- (A) Increase government spending and taxes  
 (B) Decrease government spending and taxes  
 (C) Decrease government spending and increase taxes  
 (D) Increase government spending and decrease taxes
- Q33.** To keep high inflation from eroding the value of money, monetary authorities in a country:
- (A) Create token money that is less than its intrinsic value  
 (B) Make paper money legal tender for the payment of debt  
 (C) Establish insurance on checkable deposit accounts  
 (D) Control the supply of money in the economy

Table Q 33

| Interest Rate | Transaction      |                        | Money Supply |
|---------------|------------------|------------------------|--------------|
|               | Demand for Money | Asset Demand for Money |              |
| 2%            | \$220            | \$300                  | \$460        |
| 4             | 220              | 280                    | 460          |
| 6             | 220              | 260                    | 460          |
| 8             | 220              | 240                    | 460          |
| 10            | 220              | 220                    | 460          |

- Q34.** At equilibrium in the above market for money, the total amount of money demanded is:
- (A) \$500.  
 (B) \$480.  
 (C) \$460.  
 (D) \$440.
- Q35.** Refer to the above table. The equilibrium interest rate is:
- (A) 2 percent.  
 (B) 4 percent.  
 (C) 6 percent.  
 (D) 8 percent.
- Q36.** The purchase and sale of government securities by the central bank is called:
- (A) Federal funds market  
 (B) Open market operations  
 (C) Money market transactions  
 (D) Term auction facility
- Q37.** The principle of comparative advantage indicates that mutually beneficial international trade can take place only when:
- (A) Tariffs are eliminated  
 (B) Transportation costs are almost zero  
 (C) Relative costs of production differ between nations  
 (D) A country can produce more of some product than other nations can

- Q38.** Foreign exchange rates refer to the:
- (A) Price at which purchases and sales of foreign goods take place
  - (B) Movement of goods and services from one nation to another
  - (C) Price of one nation's currency in terms of another nation's currency
  - (D) Difference between exports and imports in a particular nation
- Q39.** When the exchange rate between RM and dollars moves from RM3 = 1 dollar to RM1 = 1 dollar, we say that the RM has:
- (A) Depreciated
  - (B) Appreciated
  - (C) Inflated
  - (D) Deflated
- Q40.** A currency depreciation on the foreign exchange market will:
- (A) Encourage imports to the country whose currency has depreciated
  - (B) Discourage imports to the country whose currency has depreciated
  - (C) Discourage exports to the country whose currency has depreciated
  - (D) Encourage foreign travel by the citizens of the country whose currency has depreciated



**SECTION B (60 marks)**

**Q 41 (a)** For the following three cases, use a midpoints formula to calculate the coefficient for the cross elasticity of demand and identify the type of relationship between the two products whether substitutes, complements, or independent. (9 marks)

(i) The quantity demanded for product A increases from 30 to 40 as the price of product B increases from \$0.10 to \$0.20.

Coefficient: \_\_\_\_\_ Relationship: \_\_\_\_\_

(ii) The quantity demanded for product A decreases from 3000 to 1500 as the price of good B increases from \$5 to \$10.

Coefficient: \_\_\_\_\_ Relationship: \_\_\_\_\_

(iii) The quantity demanded for product A remains 400 units as the price of product B increases from \$25 to \$30.

Coefficient: \_\_\_\_\_ Relationship: \_\_\_\_\_

(b) Explain why would it be valuable for a business to know the cross elasticity of demand for the two products it produces, for example peanuts and popcorn. (5 marks)

(c) Give **THREE (3)** examples of how businesses or nonprofit institutions use elasticity of demand to charge consumers different prices. (6 marks)

**Q 42 (a)** The four basic market models in the economy are pure competition, pure monopoly, monopolistic competition, and oligopoly. These market models differ from each other on the basis of :-

- (i) the number of firms;
- (ii) the type of product;
- (iii) control over price;
- (iv) entry conditions; and
- (v) nonprice competition.

Explain briefly the characteristics of each market models based on the above criteria (8 marks)

- (b) In the following table are demand and cost data for a pure monopolist firm

| Quantity | Price | Total revenue | Marginal revenue | Total cost | Marginal cost |
|----------|-------|---------------|------------------|------------|---------------|
| 0        | \$34  | \$ _____      |                  | \$ 20      |               |
| 1        | 32    | _____         | \$ _____         | 36         | \$ _____      |
| 2        | 30    | _____         | _____            | 46         | _____         |
| 3        | 28    | _____         | _____            | 50         | _____         |
| 4        | 26    | _____         | _____            | 54         | _____         |
| 5        | 24    | _____         | _____            | 56         | _____         |
| 6        | 22    | _____         | _____            | 64         | _____         |
| 7        | 20    | _____         | _____            | 80         | _____         |
| 8        | 18    | _____         | _____            | 100        | _____         |
| 9        | 16    | _____         | _____            | 128        | _____         |
| 10       | 14    | _____         | _____            | 160        | _____         |

- (i) Complete the table by filling in the columns for total revenue, marginal revenue, and marginal cost. (6 marks)
- (ii) In a graph paper, plot the total revenue (TR), marginal revenue (MR), total cost (TC), and marginal cost (MC) curves. (4 marks)
- (iii) Identify the price and output determination of this firm. (1 mark)
- (iv) Calculate the total profit the monopolist will receive at the profit-maximizing level of output. (1 mark)
- Q43** (a) Define fiscal policy and describe its major objectives. (5 marks)
- (b) Explain the aspects of expansionary and contractionary fiscal policy. During which phases of the economy would each be implemented by the government? (6 marks)
- (c) Identify the **FOUR (4)** major instruments of monetary policy. (4 marks)
- (d) Explain how a change in the reserve ratio affects the money supply. (5 marks)

**END OF QUESTION PAPER**