UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER I
SESSION 2018/2019

COURSE NAME	:	PRINCIPLE OF ECONOMICS
COURSE CODE	:	BWB 21702
PROGRAMME CODE	:	BWQ
EXAMINATION DATE	:	JANUARY 2019
DURATION	:	2 HOURS AND 30 MINUTES
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FOUR (4)** PAGES

Q1 State whether the following statements are **TRUE** or **FALSE** and explain your answer.

(a) Surplus occurs when the quantity demanded is greater than the quantity supplied at certain price.

(3 marks)

(b) Increased demand with a constant price resulted in increased supply and quantity.

(3 marks)

(c) In long term price elasticity of supplied is more elastic because more responsive to changes in price since sellers can adjusts their production.

(3 marks)

(d) Income elasticity of demand (E_y) is a measure of the degree of responsiveness of changes in the quantity demanded of goods to a change in its price.

(3 marks)

(e) If the value of income elasticity of demand for goods is negative $(E_y < 0)$, the quantity demanded will decrease when income increases. Therefore, the goods is an essential goods.

(3 marks)

(f) Microeconomics is the branch of economics that analyses the behaviour of how national economies work.

(3 marks)

(g) Economics is the study of how evenly goods and services are distributed within society

(3 marks)

(h) Inflationary gap is defined as a situation when real aggregated supply is less that the aggregate supply for employment.

(3 marks)

(i) When the supply is elastic, the supply curve has a steep slope.

(3 marks)

(j) Recovery phase of the business cycle is when real GDP reaches its minimum after rising.

(3 marks)

Q2 The demand and supply function for a good in the market are as follows:

$$Q_d = 60 - 5P$$
$$Q_s = 10P$$

where:

Q_d = Quantity demanded (units)
Q_s = Quantity supplied (units)
P = Price (RM)

(a) Given the price of an item as in **Table Q2(a)**, find the quantity demanded (in units) and quantity supplied (in units)

Table Q2 (a)

Price (RM)
1
2
3
4
5

(5 marks)

(b) Draw the demand and supply curves.

(5 marks)

(c) Determine the value of price and equilibrium quantity.

(2 marks)

(d) Calculate the value of price elasticity of demand at the point of equilibrium.

(4 marks)

(e) Explain what is inflation and give **TWO (2)** causes of the inflation.

(4 marks)

Q3 Draw a related figure and explain the effects of equilibrium price and equilibrium quantity in each situation.

(a) Increased demand

(4 marks)

(b) Decreased supply

(4 marks)

(c) The increase in demand is greater than the increase in supply

(4 marks)

(d) The decrease in demand is greater than the increase in supply

(4 marks)

Q4 The demand function and supply function for a good in the market are as follows:

$$Q_d = 140 - 10P$$
$$Q_s = 20 + 10P$$

where:

Q_d = Quantity demanded (units)
Q_s = Quantity supplied (units)
P = Price (RM)

(a) Given the price of an item as in **Table Q4(a)**, find the quantity demanded (in units) and quantity supplied (in units)

Table Q4 (a)

Price (RM)	Price (RM)
1	6
2	7
3	8
4	9
5	10

(10 marks)

(b) Determine the market equilibrium price and quantity

(2 marks)

(c) Why is the price of RM4 not the equilibrium price?

(4 marks)

(d) Using your answer in (a), draw a graph and determine the market equilibrium price/point.

(6 marks)

Q5 (a) Explain **FOUR (4)** factors that will shift the aggregate demand curve.

(8 marks)

(b) Define business cycle. How does the change in the employment rate relate to business cycle?

(4 marks)

– **END OF QUESTIONS** –