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**SCHOOL OF ACCOUNTING AND BUSINESS**  
**BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE**  
**PROGRAMME**

**YEAR I SEMESTER I (Group B)**  
**END SEMESTER EXAMINATION – JUNE 2015**

**BEC 20125 Microeconomics**

Date : 13<sup>th</sup> June 2015  
Time : 9.00 a.m. - 11.30 a.m.  
Duration : Two and Half (2 ½ ) Hours

**Instructions to Candidates:**

- Paper consists of three Parts (I, II, and III)
- Part I – Answer **all** questions in the separate sheet provided.  
Part II – Answer **three** questions out of five.  
Part II – Answer **one** questions out of two.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

## PART I

1. Which of the following will cause the production possibilities curve to shift outward?
  - A. An increase in the size of the labor force
  - B. A decrease in the unemployment rate
  - C. A decrease in the size of the capital stock
  - D. An inefficiency that has been corrected
  - E. An outward migration of professionals
  
2. Which of the following must lead to an increase in the price for tomatoes?
  - A. The weather is optimal for growing tomatoes in the entire growing season.
  - B. There is a successful advertising campaign for tomatoes and the wages fall for tomato farmers.
  - C. Researchers discover that tomatoes reduce cancer and the wages increase for tomato farmers.
  - D. A technology breakthrough allows farmers to produce more tomatoes with the same inputs
  - E. An increase of consumption of fish due to health reasons
  
3. Amil would be willing to pay up to Rs. 50 for a new computer game, up to Rs.40 for a second game, up to Rs.30 for a third game, and up to Rs.20 for a fourth game. If the price of a game is Rs.30 each, what is Amil's consumer surplus?
  - A. Rs140
  - B. Rs40
  - C. Rs30
  - D. Rs 20
  - E. None of the above

4. If you were working full-time now, you could earn Rs 20,000 per year. Instead, you are working part-time while going to school. In your current part-time job, you earn Rs 5,000 per year. At your school, the annual cost of tuition, books, and other fees is Rs. 2,000. The opportunity cost of completing your education is:
- A. Rs 2,000
  - B. Rs 5,000
  - C. Rs 17,000
  - D. Rs 20,000
  - E. Rs 22,000
5. Cross elasticity of demand is the percentage change in the quantity \_\_\_\_\_ of a good divided by the percentage change in \_\_\_\_\_
- A. Demanded; the price of the good
  - B. Supplied; the price of the good
  - C. Demanded; the price of another good
  - D. Supplied; the price of another good
  - E. Demanded; income
6. The law of diminishing marginal utility says that
- A. The marginal utility gained by consuming equal successive units of a good will decline as the amount consumed increases.
  - B. The more of a particular good one consumes, the greater is the utility received from the consumption of that good.
  - C. The marginal utility gained by consuming equal successive units of a good will increase as the amount consumed increases.
  - D. The more of a particular product one sells, the less utility one receives from selling.
  - E. None of the above

7. Economic profit is the difference between total revenue and
- A. Explicit costs.
  - B. Implicit costs.
  - C. Sunk costs.
  - D. The sum of explicit and implicit costs.
  - E. The labor cost
8. The law of diminishing marginal returns holds for a situation in which;
- A. All inputs are variable.
  - B. All inputs are fixed.
  - C. Some inputs are variable and some inputs are fixed.
  - D. Some inputs are increased while others are reduced
  - E. All inputs are increased in the same proportion.
9. Which of the following is not an assumption of the theory of perfect competition?
- A. There are many sellers and many buyers, none of which is large in relation to total sales or purchases.
  - B. Each firm produces and sells a differentiated product.
  - C. Buyers and sellers have all relevant information with respect to prices, product quality, and sources of supply.
  - D. There is easy entry and exit.
  - E. There is no advertisement for the product
10. The perfectly competitive firm's short-run supply curve is the
- A. Upward-sloping portion of its average total cost curve.
  - B. Horizontal portion of its marginal revenue curve.
  - C. Portion of its average variable cost curve that lies above the average fixed cost curve.
  - D. Upward-sloping portion of its marginal cost curve.
  - E. Portion of its marginal cost curve that lies above its average variable cost curve.

**(Total 20 Marks)**

## PART II

### Question No. 01

Eurasia is a small island in the Pacific. Its inhabitants grow corn and catch fish. The table below shows the maximum annual output combinations of corn and fish that can be produced. Obviously, given their limited resources and available technology as they use more of their resources in corn production, there are fewer resources available for catching fish.

Maximum Annual Output Combinations	Quantity of corn (Kilograms)	Quantity of fish (Kilograms)
A	1000	0
B	800	300
C	600	500
D	400	600
E	200	650
F	0	675

- A. Draw a production possibilities curve with corn production on the horizontal axis and fish production on the vertical axis showing output combinations of A to F.
- B. Can Eurasia produce 800 Kilograms of corn and 500 kilograms of fish? Explain. Where would this point lie relative to the production possibilities curve?
- C. What is the opportunity cost of increasing the annual output of corn from 600 to 800 Kilograms?
- D. What is the opportunity cost of increasing the annual output of corn from 200 to 400 Kilograms?
- E. Can you explain why the answers to part (C) and (D) are not the same? What does this imply for the slope of the production possibilities curve?

**(Total 20 Marks)**

### **Question No. 02**

Demand and supply equations of balloon market is given by:

$$QD = 1100 - 40P$$

$$QS = 200 + 20P$$

- A. Determine the equilibrium price and quantity
- B. Calculate price elasticity of demand and supply at equilibrium
- C. Find consumer surplus and producer surplus at equilibrium
- D. Explain what will happen to the market equilibrium if the government set a minimum price of RS 20 to balloons. What should the government do to ensure the implementation of this price regulation?
- E. What has happened to consumer surplus and producer surplus as a result of imposing a minimum price?

**(Total 20 Marks)**

### **Question No. 03**

- A. “The demand for factors is derived demand” What is meant by this statement?
- B. Describe the factors that determine the demand for and supply for labor.
- C. Explain the concept of labor force participation ratio.
- D. How do you estimate the unemployment rate of an economy
- E. If the Marginal Revenue Product of labor is greater than the wage rate what would you advise to the employer?

**(Total 20 Marks)**

**Question No. 04**

- A. How do you distinguish between monopolistic competition and oligopoly
- B. Prices in certain oligopoly markets are stable (rigid) than in other markets. Explain why.
- C. Provide two examples each for monopolistic competition and oligopoly markets
- D. What is meant by price discrimination? Give examples
- E. Outline the possible reasons for the existence of a monopoly

**(Total 20 Marks)**

**Question No. 05**

- A. Describe the short term and long term shutdown point of a firm using a diagram
- B. What do you understand by break-even point?
- C. What is shown by an Isoquant (product indifference curve)
- D. What is an Iso-cost line?
- E. Outline the equilibrium condition using Isoquant and Iso-cost curves.

**(Total 20 Marks)**

### **PART III**

#### **Question No. 01**

Explain the short term and long term equilibrium of a perfectly competitive firm using appropriate diagrams and show how economic efficiency is reached in the short and long term.

**(Total 20 Marks)**

#### **Question No. 02**

Explain the “law of marginal returns” and the “law of returns to scale” and show how these laws determine the shapes of costs curves in the short and long terms

**(Total 20 Marks)**