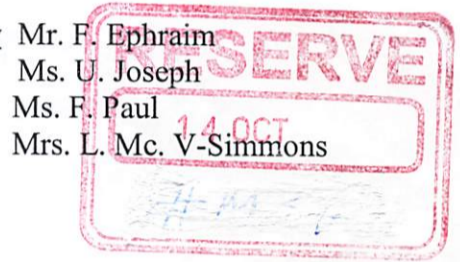


ARTHUR LEWIS COMMUNITY COLLEGE  
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION : April 2008 Examination  
TUTOR (S) : Ms. D. Persad, Ms. L. Phillips  
PROGRAMME TITLE : Applied Arts – Business Studies  
PROGRAMME CODE : 3BS-ABA-AD  
COURSE TITLE : Microeconomics  
COURSE CODE : ECO102  
CLASS (ES) : Year One  
DATE : Friday 25<sup>th</sup> April 2008  
COMMENCEMENT TIME : 9:00 a.m.  
DURATION : Two hours thirty minutes  
INVIGILATOR (S) : Mrs. F. Beerom-Henry Ms. E. Louisy  
ROOM (S) : CEHI-1H-02  
CEHI-1R-02

#M41



**INSTRUCTIONS:**

**Section A:**

- There are FIVE (5) questions in this section. Students are required to answer ALL.
- Write in the spaces provided on the examination paper.

**Section B:**

- Answer ONE (1) question from this section.
- All questions carry equal marks - 20 marks

**Borrowing or lending is prohibited.**

- ◆ Students are advised to use a pen to write this examination.
- ◆ Write your ID Number on *each* answer sheet.
- ◆ All cell phones must be turned off during the examination.
- ◆ **Note:** Bags, books as well as writing paper not given by the invigilator should be deposited at the front of the examination room or as otherwise indicated.
- ◆ Students must sign IN and OUT on the examination class list.

STUDENT ID NUMBER								

**SECTION A - DATA RESPONSE**

**Instructions:**

- There are FIVE (5) questions in this section. Students are required to answer ALL.
- Write in the spaces provided on the examination paper.

1. The weekly demand and supply schedules for shoes (in millions) in a free market are as follows:

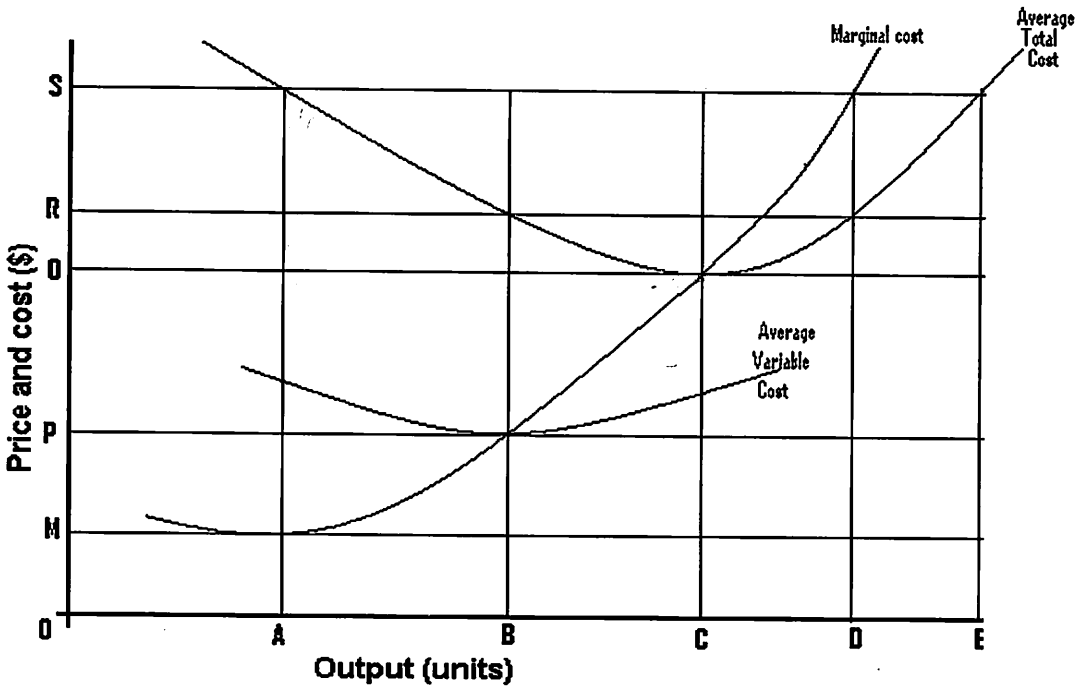
Price (\$)	8	7	6	5	4	3	2	1
Quantity demanded	6	8	10	12	14	16	18	20
Quantity supplied	18	16	14	12	10	8	6	4

*(Show all working on answer booklet)*

- a) Using the above schedule determine:  
 i) Equilibrium price \_\_\_\_\_ ii) equilibrium quantity \_\_\_\_\_  
 (2 marks)
- b) Assume that changes in fashion cause the demand for shoes to rise by 4 million at each price. Determine the new equilibrium price: \_\_\_\_\_ ii) equilibrium quantity \_\_\_\_\_  
 (2 marks)
- c) Has equilibrium quantity risen as much as the rise in demand?  
 Yes/No \_\_\_\_\_ (1 mark)
- Explain answer in (c): \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 (2 marks)
- d) Use the graph paper provided to plot the data given in the schedule and mark the equilibrium. (7 marks)
- e) Plot the new data corresponding to (b) above on the same graph. (2 marks)
- f) Referring to the original data, calculate the price elasticity of demand between a price of \$7 and \$5. \_\_\_\_\_ (4 marks)
- g) Is demand elastic or inelastic? \_\_\_\_\_ (1 mark)
- h) Referring to the original data and by reference to total expenditure is demand elastic or inelastic with respect to price between \$8 and \$7 and between \$4 and \$3?  
 \_\_\_\_\_  
 \_\_\_\_\_  
 (2 marks)

**P.T.O.**  $\rightarrow$

2. The cost curves for a certain firm are shown in the following diagram. Apply the letters given in the graph to answer the questions below.



- a) At price OS, what is the marginal revenue? \_\_\_\_\_
- b) What output will the firm produce at price OS? \_\_\_\_\_
- c) What is abnormal profit at price OS? \_\_\_\_\_
- d) What is the minimum price at which the firm can make normal profit? \_\_\_\_\_
- e) What is the minimum price at which the firm can produce in the short run? \_\_\_\_\_

(10 marks)

3. A firm faces fixed costs of \$45 and short run average variable costs as shown in the schedule below. Use the figures given to complete the table in the spaces below. *(Show working on answer booklet)*

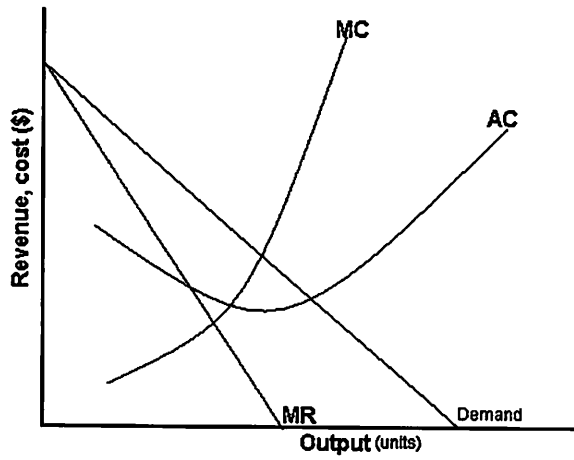
Output	SR	SR	SR	
Units per week	Average Variable cost	fixed cost	Average total cost	Marginal Total cost
0	0			
1	17			
2	15			
3	14			
4	15			
5	19			
6	29			

(18 marks)

STUDENT ID NUMBER							

P.T.O.  $\rightarrow$

4.



A firm faces the cost and revenue conditions shown in the diagram above.

- Identify the market structure. \_\_\_\_\_ (1 mark)
- Use the letters 'Q<sub>e</sub>', to show the profit maximizing level of output On the diagram. (2 marks)
- Use the letter 'P' to indicate the price at which the firm would choose to sell its output. (2 marks)
- Identify the area representing the level of profits at this price and output. Shade the area. (2 marks)


P.T.O.  $\Rightarrow$

5. **Matching key terms and concepts:**  
**Insert the appropriate letter of the concept next to the item of the key term.**

	<b>Key terms</b>	<b>Concepts</b>
-----	i Price controls	a. A good that, if consumed by one person cannot be consumed by another.
-----	ii Production function	b. The factor of production that nature provides.
-----	iii Inferior good	c. Spillover effects of production and consumption which affect society as a whole rather than just the individual producers or consumers.
-----	iv. Private good	d. A factor whose input level cannot be varied in the short run.
-----	* v Cartel	e. A good for which demand falls when income increases.
-----	* vi Collusion	f. Percentage change in quantity demanded divided by the corresponding percentage change in income.
-----	vii Externalities	g. An explicit or implicit agreement between existing firms to avoid competition with one another.
-----	* viii Positive economics	h. specification of the output that can be produced from any given amount of inputs.
-----	* ix LRAC	i. Government rules or laws that forbid adjustment of prices to clear markets.
-----	x Income elasticity of demand	j. Economic statements dealing with objective or scientific explanations of the working of the economy.
-----	xi-Land	k. the cost per unit of producing a given output level when the firm is able to adjust all inputs optimally.
-----	xii Fixed factor	l. An explicit agreement among firms to determine prices and/ or market shares.

**End of Section A**

STUDENT ID NUMBER								

P.T.O. 

### SECTION B - ESSAYS

**Instructions:**

- Answer ONE (1) question from this section.
  - All questions carry equal marks - 20 marks
6. a) Discuss the characteristics of the command economy and the market economy.
- b) What type of economies exist today? State the characteristics of this type.
7. Discuss eight (8) points of difference between perfect competition and monopoly.
8. Write short notes on the following: (*Insert diagrams where necessary*)
- a) Price ceiling and price floor
  - b) Production possibility curves
  - c) Change in demand
9. a) Discuss **FOUR** factors that influence price elasticity of supply.
- b) Explain the extent to which fixed costs are considered to be fixed.

*Microeconomics*

**END OF EXAMINATION**