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SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES

EXAMINATION SESSION : April 2012 Final Examination
TUTOR (S) : Ms. L. Phillips
PROGRAMME TITLE : Business Administration
PROGRAMME CODE : 3BS-BUS-AD
COURSE TITLE : Microeconomics
COURSE CODE : ECO102
CLASS (ES) : Year one
DATE : Tuesday 24th April, 2012
COMMENCEMENT TIME : 9:00 a.m.
DURATION : 2 ½ hours
INVIGILATOR (S) : **K. Harris** N. Heeralall, K. Numa, H. Nicholas
D. P.-Alfred J. Mathurin
P. Wilson H. St. Clair
ROOM (S) : CEHI-1R-02 (Sections A & C)
 CEHI-1R-03 (Section B)
 OTW-R3 (Section D)



#M69



INSTRUCTIONS:

Section A

There are **FOUR (4)** questions in this section. Students are required to answer ALL.

Section B

Answer **one (1)** question from this section. All questions carry equal marks. (16 marks)

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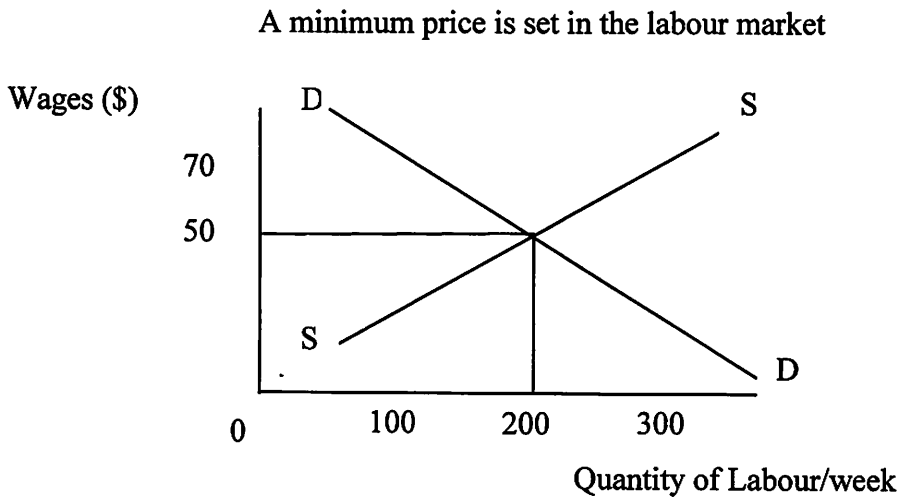
- For this examination, students must have calculators, pens, pencils, rulers, erasers
- Please number your responses accurately.
- Students are advised to use a **blue/black ink pen** to write this examination.
- Write your ID Number on *each* answer sheet.
- All cell phones must be turned off during 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.

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Number	Mark
1	
2	
3	
4	
5	
6	
7	
8	
Total	

SECTION A

INSTRUCTIONS: There are **FOUR** questions in this section. Candidates are required to answer **ALL**. *In places where lines have been provided (____) write on those lines. **DO NOT** rewrite the questions.*

1. (a) Study the following diagram and then answer the questions that follow:



- i) Over what range will the minimum price be ineffective: _____ (2 marks)
- ii) If the minimum wage is set at \$70.00 per week, the wages of those employed will **fall/rise**. _____ (1 mark)
- iii) The employment level will **rise/fall** if the minimum wage is set at \$70.00. _____ (1 mark)
- iv) What will be the approximate *size* of this change in employment? _____ (2 marks)
- v) The total wage bill will **rise/fall** if elasticity of demand is: **inelastic/elastic** _____ (2 marks)

1 (b). Indicate how the following changes in price affect total revenue. Will TR increase, decrease or remain unchanged?

- | | Total Revenue (Increase, Decrease, Same) |
|--|--|
| i) Price falls and demand is inelastic | _____ |
| ii) Price rises and demand is elastic | _____ |
| iii) Price rises and supply is elastic | _____ |
| iv) Price rises and supply is inelastic | _____ |
| v) Price falls and demand is elastic | _____ |
| vi) Price falls and demand is of unit elasticity | _____ |

(6 marks)

Please Turn Over

- 2.(a) A firm has the following revenue and cost schedules:
Insert lines for MR and MC.

Output	Total Revenue	Total Cost	MR	MC
0	-	110		
1	50	140		
2	100	162		
3	150	175		
4	200	180		
5	250	185		
6	300	194		
7	350	219		
8	400	260		
9	450	325		

Instruction: Show all working on the answer booklet.

- i) Complete the marginal cost and marginal revenue columns. (4 marks)
- ii) Under which type of market structure is the firm producing?
_____ (1 mark)
- Explain:** _____ (1 mark)
- Answer the following (using the table above)**
- iii) Fixed costs = _____ (1 mark)
- iv) Abnormal profits = _____ (2 marks)
- v) How many units will be produced at the profit level in 'iv' above _____ (2 marks)
- vi) On the graph paper provided plot the marginal cost (MC) and the marginal revenue (MR) curves. (4 marks)

Please turn over...

STUDENT ID NUMBER							

1. (b) You are given the following equation which represents the short run total cost for a commodity produced by a company:

$$TC = 30 + 3Q + Q^2$$

where Q represents output of the commodity and TC is total cost:

What is the value of total fixed cost? _____ (1 mark)

- i) Using the TC equation above, derive the equation for total variable cost _____ (1 mark)
- ii) Derive the equation for average costs _____ (2 marks)
- iii) Complete the following table (correct to one decimal place)
(Show all working on the answer booklet)

Quantity	TVC	TFC	TC	ATC
0				
1				
2				
3				
4				
5				

(10 marks)

- 3 Refer to the following diagram to answer the questions below:

A monopolist faces the cost and revenue conditions shown above:

- i) Label the curves and the axes. (5 marks)
- ii) Insert a 'P' on the diagram to show the price at which the monopolist would sell the product. (1 mark)
- iii) Insert an 'x' on the diagram to show the profit maximizing level of output. (1 mark)
- iv) Insert a rectangle to show the area representing the level of profits at the price and output shown in (ii) and (iii) above (2 marks)

Please turn over...

v) If there is a decrease in the market demand for the commodity how would the monopolist be affected. (2 marks)

Answer:

4. Insert the appropriate letter of the concept next to the item number of key term.

	Key Term		Concept
---	i) Scarcity	a)	depicted by the upward slope of the supply curve
---	ii) economic growth	b)	the price paid for labour services
---	iii) complements	c)	the equipment, structures and materials created to help in the production of goods and services
---	iv) Price ceiling	d)	commodities that have positive Income elasticity
---	v) Wages	e)	a period of production during which some inputs cannot be varied
---	vi) Mixed economy	f)	goods whose use together enhances the satisfaction a consumer obtains from each
---	vii) Economic profits	g)	device that distributes available commodities on a basis other than willingness to pay
---	viii) Implicit costs	h)	the imbalance between the desires of people in a society and the means of satisfying those desires
---	ix) Short run	i)	do not vary as a firm varies its output
---	x) Normative statement	j)	owner-supplied resources to which a cash value must be imputed
---	xi) Direct relationship	k)	behaviour of buyers and sellers in a market
---	xii) Opportunity cost	l)	the price below which the firm reduces its losses by choosing not to produce at all
---	xiii) Capital	m)	the expansion in production possibilities that result from increased productivity and increased availability of economic resources

Please turn over...

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- | | | | |
|-----------|------------------|----|---|
| ---xiv) | Free good | n) | difference between total revenue and the cost of all inputs used by a firm over a given period |
| ---xv) | Rationing | o) | market structure in which there is only one buyer of the good in the industry. |
| ---xvi) | Market structure | p) | government as well as business firms provide goods and services |
| --xvii) | Shut-down price | q) | its quantity demanded does not exceed its quantity supplied at zero price |
| ---xviii) | Fixed costs | r) | establishes a maximum price below equilibrium that can legally be charged for a commodity. |
| ---xix) | Normal good | s) | evaluates the desirability of alternative outcomes according to underlying value judgment |
| ---xx) | Monopsony | t) | choosing to use resources for one purpose measured in terms of the sacrifice of the next best alternative for using those resources |

(10 marks)

END OF SECTION A

SECTION B

Instruction: Answer **ONE** question from this section. (Diagrams, calculations, examples may be included).

6. "Although there are many benefits to be derived from large scale production, many firms still continue to produce on a small scale." Discuss (16 marks)
7. "A firm operating under conditions of perfect competition may make abnormal profits". Discuss (16 marks)

END OF EXAMINATION