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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 24<sup>th</sup> 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)

**Borrowing or lending is prohibited.**

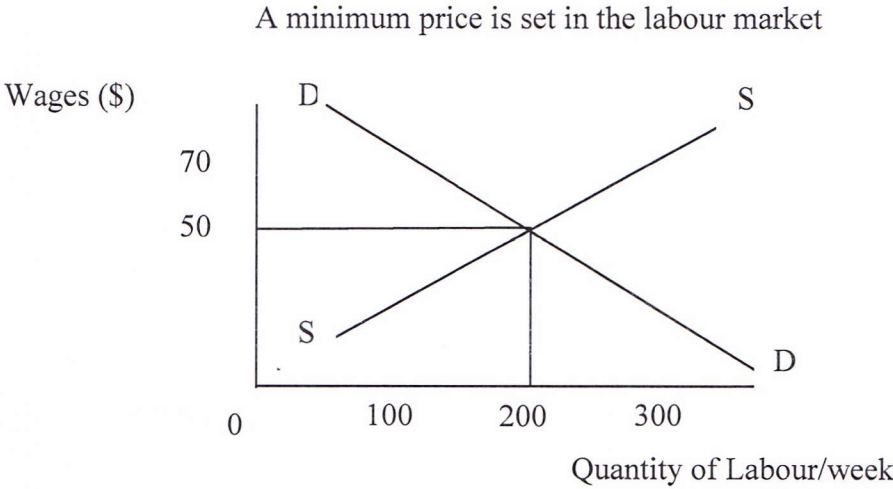
- For this examination, students must have calculators, pens, pencils, rulers, erasers
- Please number your responses accurately.
- Students are advised to use a **blue/black ink pen** to write this examination.
- Write your ID Number on *each* answer sheet.
- All cell phones must be turned off during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

FOR OFFICAL USE ONLY	
Number	Mark
1	
2	
3	
4	
5	
6	
7	
8	
<b>Total</b>	

**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...*

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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. (1mark)
- 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:**

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

	<b>Key Term</b>		<b>Concept</b>
---	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...*

STUDENT ID NUMBER							

- |           |                  |    |   |
|-----------|------------------|----|---|
| ---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**