



FINAL EXAMINATION

FOUNDATION IN COMMERCE

COURSE : ESSENTIALS OF ECONOMICS**COURSE CODE : ECO1264****DURATION : 3 HOURS****INSTRUCTIONS TO CANDIDATES:**

1. This question paper consists of **THREE (3)** parts : PART A (20 questions)
: PART B (4 questions)
: PART C (3 questions)
2. Answer **ALL** questions from PART A and PART B. Answer **ONE (1)** question from PART C.
 - i. Answer PART A, PART B, and PART C in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper
 - ii. An Answer Booklet
4. Do not bring any material into the examination hall. Students are **NOT** allowed to take this question paper out of the examination hall. Electronic calculator is allowed.
5. Please write your answer using permanent ink.

MYKAD/

PASSPORT NO : _____

ID. NO. : _____

LECTURER : _____

SECTION : _____

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

This question paper consists of 10 printed pages including the front page

PART A: MULTIPLE CHOICE

1. Which of the following statements is **TRUE**?
 - A. The total output is fixed in the long run.
 - B. At least one input is fixed in the short run.
 - C. All factors of production are fixed in the long run.
 - D. All factors of production are variable in the short run.

2. In the third stage of production, _____.
 - A. marginal product is positive
 - B. marginal product is negative
 - C. marginal product is increasing
 - D. marginal product is decreasing

3. Which of the following statements is **TRUE** about theory of production?
 - A. The marginal product curve cuts the average product curve at the minimum point on the average product curve.
 - B. The average product curve cuts the marginal product curve at the minimum point on the marginal product curve.
 - C. The marginal product curve cuts the average product curve at the maximum point on the average product curve.
 - D. The average product curve cuts the marginal product curve at the maximum point on the marginal product curve.

4. When the total product curve is decreasing, the _____.
 - A. average product is zero
 - B. marginal product is zero
 - C. average product is negative
 - D. marginal product is negative

5. When the average product is maximum, the marginal product _____.
 - A. zero
 - B. constant
 - C. maximum
 - D. equal to average product

6. Total product of labor is the _____.
- A. change in output resulting from a one-unit increase in labor
 - B. output level above which the rate of total product per unit of labor falls
 - C. maximum output produced using a given amount of resources and technology
 - D. amount of output produced when a given amount of that input is used together with fixed input
7. In the short run, when output of a firm is zero, _____.
- A. all cost will be zero
 - B. fixed cost will be zero
 - C. total cost will be zero
 - D. variable cost will be zero
8. When MC is above AVC, then the _____.
- A. AVC is at its minimum
 - B. MC is at its minimum point
 - C. AVC will increase with increased output
 - D. AVC will decrease with increased output
9. The firm's short-run marginal-cost curve is decreasing when _____.
- A. total fixed cost is increasing
 - B. marginal product is increasing
 - C. marginal product is decreasing
 - D. average fixed cost is decreasing
10. If you know that with 10 units of output, the average fixed cost is RM 1000 and total cost is RM 5000, then variable cost at this output level is _____.
- A. RM500
 - B. RM4000
 - C. RM4900
 - D. RM5100
11. Perfect competition and monopoly are similar in terms of _____.
- A. the demand curves
 - B. the long-run profit
 - C. price determination
 - D. the type of goods produced

12. In perfect competition, a firm's marginal revenue equals its _____.
- A. supply
 - B. average cost
 - C. average revenue
 - D. average variable cost
13. Which of the following statement is **TRUE** for a monopolist?
- A. It earns zero profit in the long run.
 - B. It has efficient allocation of resources.
 - C. It sells large quantities unlike perfectly competitive firms.
 - D. The market price is higher than the market price in a perfect competition.
14. Which of the following market structures will have the **MOST** difficult entry of new firms?
- A. Monopoly
 - B. Oligopoly
 - C. Perfect competition
 - D. Monopolistic competition
15. The demand curve for an individual firm in a purely competitive market _____.
- A. perfectly elastic
 - B. upward sloping
 - C. perfectly inelastic
 - D. downward sloping
16. In an imperfect market, a firm will operate in the short run provided _____.
- A. $MR > MC$
 - B. $MR < MC$
 - C. AC curve is above the price
 - D. $P = AC$ and P is above AVC
17. In a monopolistic competition market, if the average revenue is less than the average variable costs, then the firm should _____.
- A. shut down
 - B. increase production levels to increase revenues
 - C. reduce production levels to result in higher prices
 - D. form a cartel with other producers to result in higher prices

18. An oligopoly industry, _____.
- A. firms can freely enter and exit and economic profits are zero in the long run
 - B. there are barriers to entry and exit but economic profits are zero in the long run
 - C. firms can freely enter and exit and economic profits are greater than zero in the long run
 - D. there are barriers to entry and exit and economic profits are greater than zero in the long run
19. Which of the following market structures describe examples of Maxis, Celcom and Digi?
- A. Oligopoly
 - B. Monopoly
 - C. Monopolistic
 - D. Perfect Competition
20. The price rigidity of an oligopolistic firms explains the existence of _____.
- A. substitute products
 - B. few sellers in the industry
 - C. the inability to change its price
 - D. large advertising expenditures

(TOTAL: 20 MARKS)

PART B: STRUCTURED

Answer ALL questions.

1. Table 1 shows the daily output of a firm and the number of labour.

Table 1

Land (Acre)	Worker	Total Product (unit)	Average Product (unit)	Marginal Product (unit)
10	0	0	-	-
10	1	4		
10	2	12		
10	3	24		
10	4	40		
10	5	55		
10	6	60		
10	7	63		
10	8	63		
10	9	55		
10	10	50		

- a. Fill in the blanks for marginal product and average product. (5 marks)
- b. On a diagram, illustrate the total product, average product, and marginal product curves. Indicate the **THREE (3)** stages of production. (4 marks)
- c. Define the law of diminishing marginal return and identify at which number of workers the diminishing marginal return set in. (2 marks)
- d. At which stage of production will a rational producer choose to stop its production? Give a reason for your answer. (2 marks)
- e. Is the firm operating in the short run or long run? Why? (2 marks)

(Total: 15 marks)

2. Table 2 shows the production cost of the Firm Marble Cake.

Table 2

Output (Q)	TC (RM)	TVC (RM)	MC (RM)	AFC (RM)	AVC (RM)	AC (RM)
0	24		-	-	-	-
1			24	24		
2			1			
3			5			
4			14			
5			22			

- a. Complete the Table 2. (5 marks)
- b. Define:
 i. marginal cost
 ii. average cost (2 marks)
- c. Sketch MC, AC, and AVC in one diagram. (3 marks)
- d. Does the firm operate in the short run or the long run? Give your reason. (2 marks)
- e. Explain TC, TFC, and TVC. (3 marks)

(Total: 15 marks)

3. Table 3 shows the total revenue and total cost schedule for Mahmud's firm. Suppose the firm is operating in a perfectly competitive market. He sells his products for RM10 each.

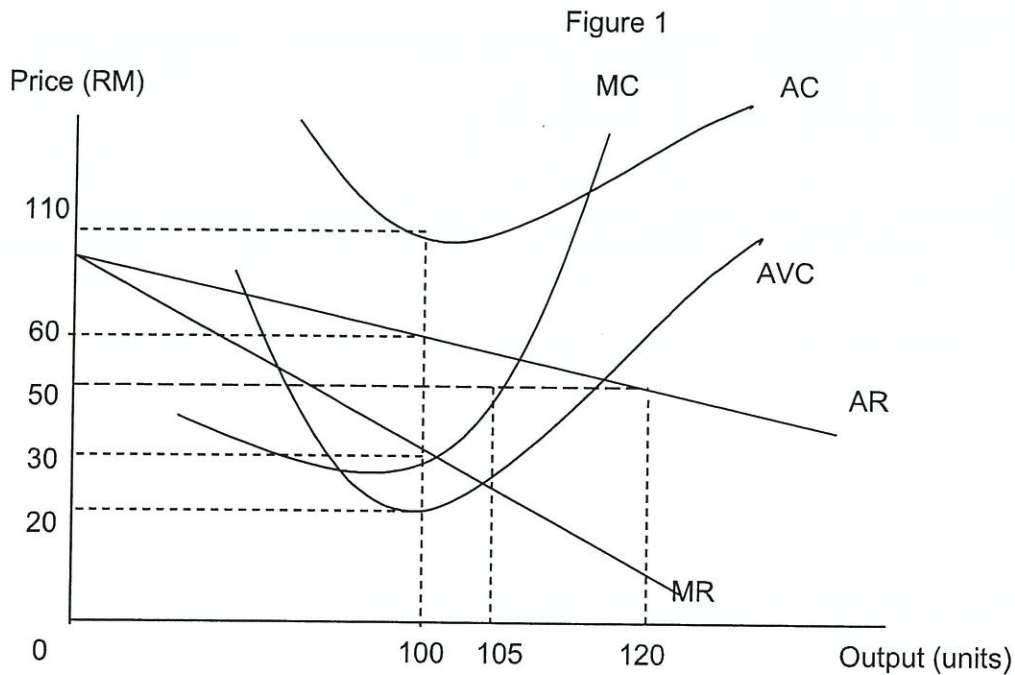
Table 3

Q	TR	AR	MR	TC	MC	AC	PROFIT
1				12			
2				18			
3				28			
4				43			
5				60			

- a. Complete the following table. (6 marks)
- b. At the profit-maximizing output, calculate the profit/loss to the firm. (2 marks)
- c. List any **THREE (3)** characteristics of this firm. (3 marks)
- d. Draw the long-run equilibrium curve for this firm. (4 marks)

(Total: 15 marks)

4. Figure 1 below shows the profit-maximizing condition for a firm.



- a. In your opinion, the firm operating in a perfect competition or monopolistic competition market? Give a reason. (2 marks)

- b. Determine the firm:
 - i. profit maximization output and price. (2 marks)
 - ii. profit or loss earned by the firm at equilibrium. (3 marks)

- c. Should the firm shut down or continue its operation? Why? (1 mark)

- d. Using a suitable diagram, explain the long-run equilibrium for the above firm. (4 marks)

- e. List **THREE (3)** characteristics for this firm. (3 marks)

(Total: 15 marks)

(TOTAL: 60 MARKS)

PART C: ESSAY

Answer ONE (1) question only.

1. a. Explain between fixed input and variable input. (4 marks)
- b. Explain average product, marginal product, and total product (6 marks)
- c. Identify **FOUR (4)** factors of production and provide an example for each factor. (10 marks)
- (Total: 20 marks)

2. a. Using a suitable diagram, explain **THREE (3)** relationships between MC and AVC. (10 marks)
- b. Using an appropriate diagram, explain the relationship between product curves and cost curves. (10 marks)
- (Total: 20 marks)

3. a. With an aid of a diagram, briefly explain why the demand curve in an oligopoly is kinked. (10 marks)
- b. Identify any **FIVE (5)** differences between perfect competition and oligopoly. (10 marks)
- (Total: 20 marks)

(TOTAL: 20 MARKS)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER