

QUESTIONS

- 1 Indicate whether each of the statements is positive or normative.
  - (a) Government should eliminate subsidy for petrol and diesel.
  - (b) The move of government to eliminate the subsidy will decrease the usage of vehicles.
  - (c) An increase in the income of consumers will increase the demand for goods and services.
  - (d) Protectionism policies on imported goods are necessary for all countries and it should be practiced.
  - (e) Higher tariff rate on imported goods will increase the price of imported goods.
- 2 How does scarcity forces society to incur opportunity costs? Explain with specific examples.
- 3 Discuss the role of government in a planned economy system in solving the basic economic problems.
- 4 Indicate whether each of the following statements belong to microeconomics or macroeconomics.
  - (a) Mary allocates her time between leisure and work.
  - (b) The number of workers in the steel industry has increased tremendously over the last five years.
  - (c) The unemployment rate in China had decreased since the implementation of open economy.
  - (d) The price of meat has increased as a result of higher tariff rate.
  - (e) It is anticipated that demand for cars will rise since the government had raise the income of civil servant.
  - (f) The inflation rate of Malaysia was 3.5% in the year 2006.
- 5 Discuss briefly why socialism fails in many countries. Explain with information on one specific country.
- 6 Using the production possibilities curve, explain the concept of scarcity, choice and opportunity cost. Also explain why unemployment problem occurs in a nation.
- 7 What will be your opportunity cost of going to university? How would you define the concept of opportunity cost? Why does it exist?

8 The following table shows the production possibilities combination by a nation.

Combination	Chickens (thousand)	TVs (thousand)
A	0	20
B	5	18
C	10	15
D	15	6
E	20	0

- (a) Plot the production possibilities curve. What is the opportunity cost of producing the first 5000 of chickens? What will be the opportunity cost if the production of TV increases from 15,000 to 20,000 units?
  - (b) In the curve above, label the inefficiency point as point X and point Y as unattainable point. Which are the efficient points?
  - (c) If this country wants to produce 25,000 kg of chicken and 30,000 units of TV. Is this combination achievable? If no, suggest any other way to achieve this combination.
- 9 The following is a set of hypothetical production possibilities for consumer goods and capital goods.

Combination	Consumer Goods	Capital Goods	Opportunity Cost
A	30	0	-
B	28	1	
C	24	2	
D	18	3	
E	10	4	
F	0	5	

- (a) Fill in the opportunity cost (consumer goods forgone) of producing the first through the fifth capital goods produced.
- (b) Plot the PPC on a graph paper and indicate the efficient points.
- (c) Suppose there is a major technological breakthrough in the production of capital goods, draw a new PPC to indicate the changes.

Questions

- 1 Indicate whether each of the following statements represent change in demand (rightward or leftward shift) or change in quantity demanded (upward or downward movement) for apples.
- (a) A daily newspaper reports that banana provides more nutrients than apple.
  - (b) The government had increased the emolument of civil servants.
  - (c) The price of oranges falls.
  - (d) The price of apples falls.
  - (e) Consumer expects the price of apples to increase in the future.
  - (f) Consumers prefer to eat papaya instead of apple.
  - (g) The weather condition had decreased the supply of apples and as a result the price of apples had increased.
- 2 The following table shows the individual demand curve for CDs.

Price per CD (RM)	Individual A	Individual B
12	4	8
10	6	12
8	8	16
6	10	20
4	12	24

- (a) Calculate the market demand for CDs.
  - (b) With the aid of diagrams, derive the market demand from the individual demand.
  - (c) In the diagram (b), indicate what happens if the price of DVD had increased. (Assume CD and DVD players are substitute goods.)
- 3 Explain the difference between a shift in the demand curve and a movement along the demand curve using appropriate examples and diagrams.
- 4 For each of the following statements, answer 'true' or 'false' and then state the reasons for your answer.
- (a) An increase in the price of milk will cause the demand curve for milk to shift to the right.

- (b) If the government imposes an import tax on perfumes, the supply of imported perfume will increase.
  - (c) The population of Indonesia increases and as a result the demand for goods and services increases.
  - (d) As the price of chicken decreases, the demand for beef decreases (assume chicken and beef are substitute goods).
  - (e) A decrease in the price of television will cause the supply of television to decrease.
  - (f) If the income of consumer increases, the demand curve for cereal shifts to the left (assume cereal is a normal good).
  - (g) The price of the imported components for the production of computers has increased due to exchange rate and it has reduced the supply of computers.
- 5 The following is the individual supply schedule at each price level for eggs.

Price of Eggs (RM Dozen)	Quantity Supplied by Bob Mini Market (Dozen)	Quantity Supplied by John Mini Market (Dozen)	Market Supply (Dozen)
3.20	80	150	
3.00	70	140	
2.80	60	130	
2.60	50	120	
2.40	40	110	
2.20	30	100	

- (a) Fill in the market supply and plot the individual supply curve on the graph paper.
  - (b) Derive the market supply curve.
  - (c) Assume that the government imposes tax for eggs and as a result the market supply falls by 20 dozens at each price level. Indicate the changes in the graph.
- 6 What do you understand by the term 'ceteris paribus'? How does it help to differentiate between change in quantity supplied and change in supply? Explain using appropriate examples.

Questions

- 1 Explain with aid of diagrams, how can the government control over prices?
- 2 The following is the market demand and market supply schedule at each price level for eggs.

Price of Eggs (RM Dozen)	Market Demand (Dozen)	Market Supply (Dozen)
4.50	140	220
4.00	160	200
3.50	180	180
3.00	200	160
2.50	220	140
2.00	240	120

- (a) Plot the market demand and market supply curve on a graph paper.
  - (b) What is the equilibrium price and quantity?
  - (c) Suppose the government imposes a tax of RM0.50 on every dozen of egg on the producer. Indicate the changes in the graph.
  - (d) What is the new equilibrium price and quantity?
  - (e) Calculate the tax burden paid by the producer and consumer.
- 3 Illustrate each of the following events using a demand and supply diagram for chicken. Explain the effect on equilibrium price and quantity.
    - (a) A tabloid reports that fish provides more nutrient than chicken.
    - (b) The price of beef falls (assuming beef and chicken are substitutes).
    - (c) Consumers' income decreases. (assuming chicken is a normal good).
    - (d) Consumers prefer to eat seafood instead of chicken.
    - (e) Kentucky's promotion for rice and chicken meal has been very successful.
    - (f) News reported that the chickens are affected by bird flu.
  - 4 A heavy rain in Muar had resulted about 40% reduction in the quantity of pineapple produced in Muar. Explain the effect this event might have on the Johor pineapple market.

- 5 Given the quantity demanded as  $Q_D = 400 - 0.2P$ , where P is the price and quantity supplied as  $Q_S = 300 + 0.3P$ . What is the equilibrium price and quantity?
- 6 Explain why price cannot be determined when there are simultaneous changes in demand and supply. Explain with aid of a diagram.
- 7 The market for wheat has the following supply and demand schedule.

Price (RM per Ton)	Quantity Demanded (Tons)	Quantity Supplied (Tons)
20	1000	450
25	900	600
30	750	750
35	600	900
40	500	1050
45	350	1200

- (a) What is the amount of wheat traded in the market?
  - (b) Suppose the government supports the wheat producers by imposing a price floor of RM40.00 per ton. With this price floor, is there a surplus, shortage or neither?
  - (c) If there is a shortage or surplus in question (b), state what is the numerical value?
  - (d) What would be the consequences of imposing the price floor?
  - (e) Suppose the government set the price per ton of wheat to RM25.00. Would there be excess demand or excess supply?
- 8 Given the quantity demanded as  $Q_D = 100 - 5P$ , where P is the price and quantity supplied as  $Q_S = 50 + 2P$ . What is the equilibrium price and quantity?
  - 9 Malaysia's chicken population was affected by bird flu but production of beef was unaffected. Explain with diagrams, what is the effect on market demand and market supply of beef. What would happen to the equilibrium price and quantity of beef?

**Questions**

- ① The total revenue for accounting profit and economic profit is the same but what is the difference between both the profits?
- 2 Is it possible for a firm to earn an economic profit but negative accounting profit? Give your answers with numerical examples.
- ③ The following table shows the data for a firm.

Output	Price (RM)	Total Costs
1	10	20
2	10	24
3	10	30
4	10	38
5	10	48
6	10	60

- (a) Calculate the total revenue, marginal revenue and marginal cost.
  - (b) Based on the data, in what kind of market does this firm operate?
  - (c) Calculate the profit maximizing output using the marginal revenue and marginal cost approach.
  - (d) Using a diagram, illustrate the profit maximizing output level as in (c).
- 4 Mary is working as an admin executive for a public listed company at a salary of RM2800 per month. After working for 15 years in the same field, Mary decided to quit her job and start up a restaurant. She has RM20,000 saving in a fixed deposit with XYZ Bank which yields an interest of 8% per annum. She uses the money from the bank as well as the shop lot which she rented out for RM1000 per month to use for her new business. She estimates the following cost for one month:
- Cost of employing staff – RM3000
  - Electricity and water bills – RM350
  - Supplies – RM5000
  - Advertising – RM250
- (a) Calculate Mary's explicit and implicit cost.
  - (b) If Mary estimates total revenue is RM200,000 per year, what is her accounting profit and economic profit?

- (c) Based on the answer in (b), advise Mary whether she should start the restaurant or continue with her job.
- ⑤ With the aid of diagrams, explain the difference between total revenue and total cost approach and marginal revenue and marginal cost approach in determining the profit maximizing output under perfect market.

- ⑥ Shasha Gourmet Foods has the following demand and cost functions.

Demand:  $Q = 20 - P$

Cost function:  $C = 2Q^2 - 10Q + 25$

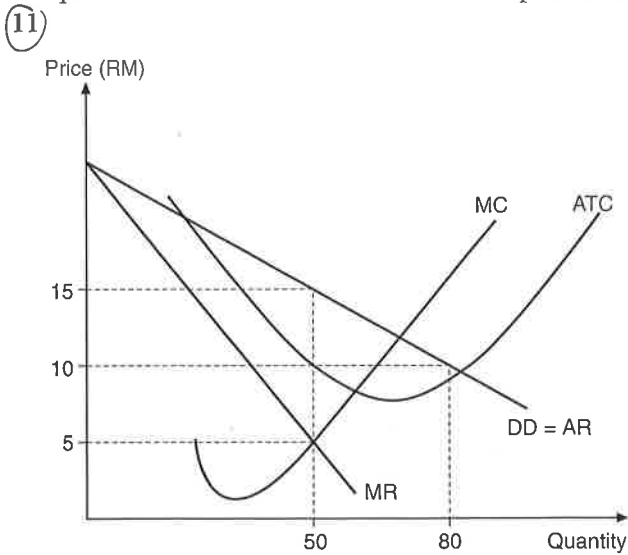
At what price and quantity does this firm maximize its profit?

- 7 Explain briefly with examples explicit costs and implicit costs.
- 8 How do implicit costs lead to a difference between economic profit and accounting profit? Explain by using numerical examples.
- ⑨ The following is the demand and total cost for a firm selling eggs.

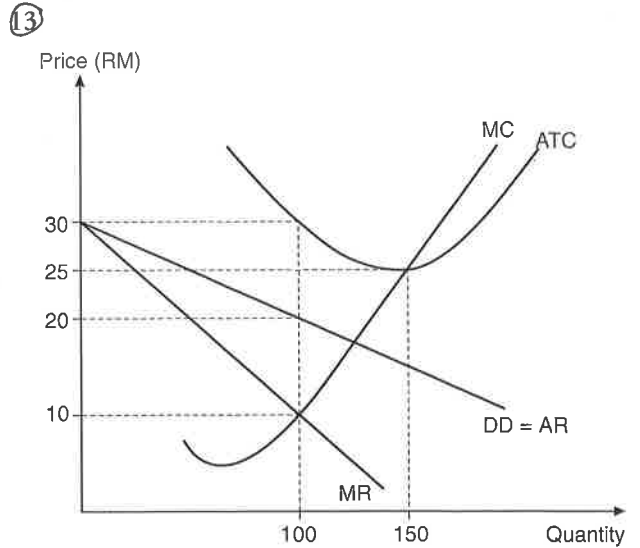
Quantity (units)	Price (RM)	Total	Profit	MR	MC
0	80	80			
1	72	82			
2	64	88			
3	56	100			
4	48	124			
5	40	160			
6	32	208			
7	24	268			
8	16	340			

- (a) Fill in the table above.
- (b) Based on the marginal revenue and marginal cost approach, what is the profit maximizing output?
- (c) At the profit maximizing output, calculate the total profit earned by the firm.

- 7 The demand curve and MR curve for both monopoly and monopolistic competition are downward sloping. But why the monopolistic competitive firm's curve is more elastic than the monopoly firm's curve.
- 8 What are the monopolistic competitive firm's profit maximizing price and output if the demand function is given as  $P = 500 - 3Q$  and MC is constant at RM100.
- 9 Regardless of the type of profit earned in short run, a monopolistic competitive firm can only earn normal profit in long run. Explain.
- 10 Why do monopolistic competitive firms practice price discrimination? Do they earn higher profit if they charge lower price for one market and higher price for another market for the same product?



- (a) What is the profit maximizing price and output?
- (b) Calculate the total profit or loss at the equilibrium output.
- (c) Does the firm operate in short run or long run?
- (d) List down two characteristics of the firm.
- 12 There are some differences between monopolistic competition and perfect competition. However, some features in both the markets are similar. What are the similarities between both the markets?



- (a) Profit-maximization price is \_\_\_\_\_ and output is \_\_\_\_\_.
- (b) Calculate the total profit or loss at the equilibrium output.