



# **ECO 162: MICROECONOMICS**

**PREPARED BY**

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# TUTORIAL QUESTIONS

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STRUCTURED QUESTIONS

1. The following is a Production Possibilities table for computers and jet aircraft.

Combinations	Computers (000)	Jet Aircraft (000)
A	0	40
B	25	30
C	40	20
D	50	10
E	55	0

- a) Plot the Production Possibility Curve for the economy characterized by the table.
- b) List two of the assumptions needed in describing Production Possibility Curve?
- c) Demonstrate the law of increasing opportunity cost using the data in the table.
- d) Explain the following terms (Indicate them in the graph above)
  - i. Scarcity: \_\_\_\_\_  
\_\_\_\_\_
  - ii. Choice: \_\_\_\_\_  
\_\_\_\_\_
  - iii. Economic Inefficient: \_\_\_\_\_  
\_\_\_\_\_

2. Table below shows combination of food and film produced by the economy.

Combinations	Food	Films
A	25	0
B	22	9
C	17	17
D	10	24
E	0	30

- e) Define production possibility curve.
- f) Plot the Production Possibility Curve for the economy characterized by the table and indicate scarcity, inefficiency and choices in the same diagram.



- g) Indicate the effects of the following events on the PPC. (Sketch a different diagram for each of the event)
- i. The invention of a more efficient film processing machine
  - ii. An improvement in the technology of producing food and film.

3. Answer the following questions based on the table below.

**Exhibit 1 Production possibilities curve data**

Consumption Goods	Capital Goods
10	0
9	1
7	2
4	3
0	4

- a. Draw the Production Possibilities Curve
- b. Illustrate the following in the same diagram; Scarcity, Choice and Opportunity cost
- c. What type of opportunity cost does the economy experience?

**ESSAY QUESTIONS**

- 1.
  - a) Explain the difference between microeconomics and macroeconomics
  - b) Discuss two of the advantages and disadvantages of the capitalism.
  
- 2.
  - a) Explain the four philosophical foundations of Islamic economics.
  - b) Describe the classification of goods from the Islamic perspective.
  
- 3.
  - a) Explain three of the characteristic of capitalism.
  - b) Identify how capitalism solves the problem of what, how and for whom to produce.
  
- 4. What is scarcity and why does it exist? How is scarcity related to the study of economics?



**STRUCTURED QUESTIONS**

1. Answer the following questions based on the table below.

Price of Chicken	Quantity Demanded Chicken (Millions)	Quantity Supplied Chicken (Millions)
5	2.25	3.75
4	2.5	3.50
3	3.0	3.00
2	4.0	2.00
1	5.50	0.50

- a. Draw the demand and supply curves for the above market.
- b. Determine the market equilibrium quantity and price.
- c. If the market price is \$5, what problem might arise in the market? What effect does the above problem have upon the price of chicken?
- d. Examine the effect on the equilibrium price and quantity of chicken traded in Malaysia of the following events. (Consider each event separately)
  - i. A fall in the price of fish (Consider fish as substitute)
  - ii. The introduction of subsidy on all chicken sold

2. Answer the following question based on the table below

<b>Supply and Demand data for petrol (in liters)</b>						
PRICE (RM)	1.00	1.20	1.40	1.60	1.80	2.00
<b><u>QUANTITY DEMANDED</u></b>	10	9	8	7	6	5
<b>QUANTITY SUPPLIED</b>	3	4	5	6	7	8

- a. Plot the supply and demand curve and find the equilibrium price and quantity.
- b. What is the excess supply or demand when price is (i) RM1.20; (ii) RM2.00?



- c. What happens to the demand curve for petrol if the price of cars rises? Give v reasons for the above answer.
- d. What happens to the equilibrium price and quantity of petrol because of event (c)
- e. Give two reasons that would increase demand of petrol.

ESSAY QUESTIONS

- 1.
  - a) Distinguish between a change in quantity demanded and a change in demand.
  - b) Identify and briefly explain the main factors that influence the amount that consumers plan to buy.
- 2. What is meant by Price Floor and Price Ceiling? Identify and briefly discuss the advantages and disadvantages of both.
- 3.
  - a) Identity four important factors that influence the supply of a product.
  - b) Explain each of the following with the help of a diagram
    - i. Change in quantity supplied
    - ii. Change in supply



STRUCTURED QUESTIONS

1. You have been hired as an economic consultant by TELEKOM and given the following demand schedule for long distance calls:

Price (cents per minute)	Quantity Demanded (Millions of minutes per day)	
	Short-Run	Long-Run
10	700	1,100
20	500	500
30	300	0

Your advice is needed on the following questions:

- a. Calculate the price elasticity of short-run demand when price increases from \$0.20 to \$0.30.
- b. Calculate the price elasticity of long-run demand when price increases from \$0.20 to \$0.30.
- c. Is the demand for calls more elastic in the short run or the long run? Why?
- d. What will happen to Telekom’s total revenue when the price for long distance calls increase from \$0.20 cents to \$0.30 cents in the short run and long run?

2. Answer the following questions based on the table below.

Price of Good X	Quantity Demanded for X (Millions)	Quantity Demanded for Y (Millions)
5	260	200
10	240	220
15	220	240
20	200	260

- a. Calculate the price elasticity of demand for good X if the price of good X increases from RM5 to RM10 per unit. State whether it is elastic or inelastic.
- b. Calculate the cross elasticity of demand of good Y when price of X falls from RM 20.00 to RM 10.00. Indicate the relationship between X and Y.
- c. Assume that when consumer’s income increase from RM 1200 to RM 1700, the demand for good Y increases from 220 to 260 units. Calculate the income elasticity of demand for Y. What type of good is Y?



- d. What are the factors that influence the price elasticity of demand? (List only two)

**ESSAY QUESTIONS**

1.
  - a. What does the “price elasticity of demand” measure? What does a price elasticity of demand coefficient of -1.2 mean?
  - b. What factors influence the price elasticity of demand?
  
2.
  - a. Define the elasticity of supply?
  - b. What three factors influence the size of the elasticity of supply?
  - c. What is meant by elastic and inelastic supply?





STRUCTURED QUESTIONS

1. Answer the following questions based on the table below.

Labour (Units)	Total Product	Marginal Product	Average Product
0	0		
1	100		
2	250		
3	350		
4	400		
5	420		
6	420		

- a) Calculate the Marginal Product and Average Product
- b) Explain what law of diminishing return means?
- c) At what number of workers does the law of diminishing return sets in?
- d) Plot the Marginal Product and Average Product and indicate the three stages of production.

2.

Table 1: Production Function of Avisnabc Store.

Labor	Total Product
0	0
1	8
2	18
3	30
4	43
5	55
6	65
7	73
8	79
9	82
10	82
11	80

- a. Calculate the Average Product and Marginal Product for Avisnabc store.
- b. Plot the TP, AP and MP in a diagram and indicate the stages of production
- c. Which stage will Avisnabc choose to operate? Why?



- d. Based on the diagram explain the relationship between Average Product and Marginal Product.

*ESSAY QUESTIONS*

1.

- a. Explain the factors of earning from the Islamic perspective.
- b. Explain the relationship between Average Product (AP) and Marginal Product (MP).
- c. Explain the law of Diminishing Marginal Returns



STRUCTURED QUESTIONS

1.

(Quantity) Pizzas	Variable Cost	Total Cost	Average Total Cost	Average Variable Cost	Marginal Cost	Total Revenue	Marginal revenue
0		40					
1		48					
2	17						
3	27						
4		78					
5	50						
6	64						
7	80						

- a. Complete the above table. (Assume that it is a perfect competition and the price of Pizzas is \$10)
- b. What is the fixed cost faced by the firm?
- c. If the firm operates under the perfect competition and the market price is 10, what is the profit maximization output for the firm?

2.

Table 2: Costs and Revenue for Telco Sdn. Bhd.

Quantity	Total Cost	Total Revenue	Total Variable Costs	Average Variable Costs	Average Total Costs
80	5000	8000			
81	5050	8100			
82	5125	8200			
83	5225	8300			
84	5350	8400			
85	5500	8500			

- a. Calculate the TVC, AVC and ATC assuming that the fixed costs are RM480.
- b. What is the price of the product for the above market? What type of market is Telco Sdn. Bhd.? Give reasons for your answer.
- c. What type of profit does the firm earn at the profit maximization level?
- d. At what price level will Telco Sdn. Bhd. shut down its operation?



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ESSAY QUESTIONS

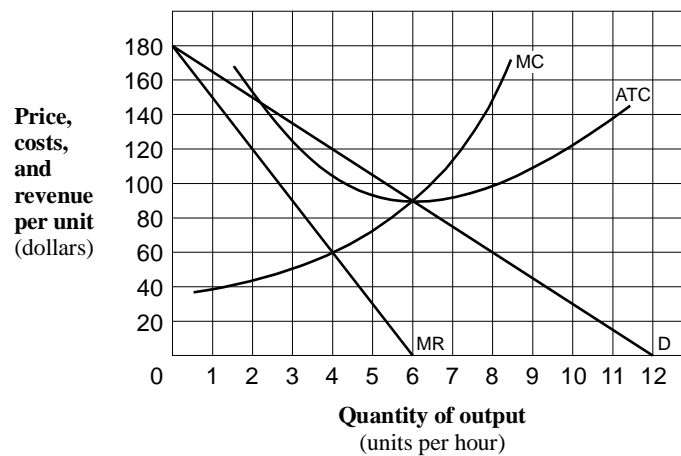
1.
  - a. Explain the two types of diseconomies of scale
  - b. Differentiate implicit cost with explicit cost. Give examples.
  - c. What is meant by economic of scale? Identify three reasons, which may contribute to economic of scale?
  
2. Discuss with the aid of a diagram, why the long run average cost curve of a firm is U-shaped.
  
3.
  - a. Why does average cost usually increase in short run and in the long run if output increase continuously?
  - b. Using appropriate diagram, explain the relationship between average cost and marginal cost of a firm.
  
4.
  - a. Explain how a long run average cost curve is derived for a firm.
  - b. Elaborate on the relationship between cost and return to scale.



CHAPTER 7 MARKET STRUCTURE

STRUCTURED QUESTIONS

1.



Based on the diagram above, answer the following questions

- The profit-maximizing output level and price for the above market.
- Calculate the total revenue and the profit earned by the firm at the equilibrium.
- What type of profit does this firm earn?
- What type of market structure is the firm operates in? Why?

2.

Table 3: Demand and cost data for a monopolist

Price	Quantity	TR	MR	TC	MC
\$10	1	10	10	4	
9	2			8	
8	3			12	
7	4			16	
6	5			20	
5	6			24	
4	7			28	
3	8			32	
2	9			36	
1	10			40	

- Complete the table above?
- Which output and price level maximizes profit?



- c. How much is the profit if the firm decides to operate at the profit maximization level?
- d. If the monopolist present level of output is at 5, what should the firm do?

ESSAY QUESTIONS

1.
  - a) What is the basic difference between the perfect competition and the monopoly?
  - b) What is price discrimination? What are the conditions necessary for price discrimination?
2.
  - a. Describe the characteristics of the perfect competition market.
  - b. With the aid of a diagram compare Perfect Competition and Monopoly market in terms of price, output and profits
3.
  - a. Compare any two characteristics between monopoly and monopolistic competition.
  - b. Define oligopoly and explain why an oligopolies faces kinked demand curve
4. Suppose in the long run a purely competitive firm becomes a monopoly. With the aid of suitable diagram, explain what changes you would expect to see in term of :
  - a. The price of output
  - b. The quantity of output produced
  - c. The profit level of the firm
  - d. The efficiency level of the firm
5. Explain the decision of shutting down of the firms in the event of losses.