FINALTERM EXAMINATION

FALL 2006

Marks: 60

ECO402 - MICROECONOMICS (Session - 3)

Time: 120min

StudentID/LoginID: ______________________________

Student Name: ______________________________

Center Name/Code: ______________________________

Exam Date: Thursday, February 01, 2007

INSTRUCTIONS:

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of 15 Multiple Choice Questions (MCQ's) carrying 1 mark each,5 fill in the blanks carrying 1 mark each,5 true false carrying 1 mark each, 5 Short questions carrying 3 marks each and 2 Descriptive questions carrying 10 marks each.
- For each Multiple Choice Question, read the options available and select which you consider is correct option.
- You are required to show all the working of short questions as well as Descriptive question.
- This examination is closed book, closed notes and closed neighbors.
- Do not ask any questions about the contents of this examination from anyone.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.
- Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant

event.

For Teacher's use only											
Question	1	2	3	4	5	6	7	8	9	10	Total
Marks											
Question	11	12	13	14	15	16	17	18	19	20	
Marks											
Question	21	22	23	24	25	26	27	28	29	30	
Marks											
Question	31	32									
Marks											

Question No: 1 (Marks: 1) - Please choose one

Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a ______________ price and sell a ______________ quantity.

► Higher; larger

► Lower; larger

► Higher; smaller

► All of the given options

Question No: 2 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the marginal cost?

► 200

► 5Q

► 5

► 5 + (200/Q)

Question No: 3   (Marks: 1)   - Please choose one

Marginal profit is equal to:

- ► Marginal revenue minus marginal cost.
- ► Marginal revenue plus marginal cost.
- ► Marginal cost minus marginal revenue.
- ► Marginal revenue times marginal cost.

Question No: 4   (Marks: 1)   - Please choose one

An improvement in technology would result in:

- ► Upward shifts of MC and reductions in output.
- ► Upward shifts of MC and increases in output.
- ► Downward shifts of MC and reductions in output.
- ► Downward shifts of MC and increases in output.

Question No: 5   (Marks: 1)   - Please choose one

An increasing-cost industry is so named because of the positive slope of which curve?

- ► Each firm's short-run average cost curve
- ► Each firm's short-run marginal cost curve
- ► Each firm's long-run average cost curve
- ► The industry's long-run supply curve

Question No: 6   (Marks: 1)   - Please choose one

As the manager of a firm you calculate the marginal revenue is $152 and marginal cost is $200. You should:

▶ Expand output.

▶ Do nothing without information about your fixed costs.

▶ Reduce output until marginal revenue equals marginal cost.

▶ Expand output until marginal revenue equals zero.

Question No: 7 (Marks: 1) - Please choose one

The _____ elastic a firm's demand curve, the greater its _____:

▶ Less; monopoly power

▶ Less; output

▶ More; monopoly power

▶ More; costs

Question No: 8 (Marks: 1) - Please choose one

An electric power company uses block pricing for electricity sales. Block pricing is an example of:

▶ First-degree price discrimination.

▶ Second-degree price discrimination.

▶ Third-degree price discrimination.

▶ Block pricing is not a type of price discrimination.

Question No: 9 (Marks: 1) - Please choose one

The maximum price that a consumer is willing to pay for each unit bought is the ______________ price:

- ▶ Market
- ▶ Reservation
- ▶ Consumer surplus
- ▶ Auction

Question No: 10 (Marks: 1) - Please choose one

When a company introduces new audio products, it often initially sets the price high and about a year later it lowers the price. This is an example of:

- ▶ A two-part tariff.
- ▶ Second-degree price discrimination.
- ▶ Intertemporal price discrimination.
- ▶ First-degree price discrimination.

Question No: 11 (Marks: 1) - Please choose one

The market structure in which there is interdependence among firms is:

- ▶ Monopolistic competition.
- ▶ Oligopoly.
- ▶ Perfect competition.
- ▶

Monopoly.

Question No: 12 (Marks: 1) - Please choose one

In the long run, the monopolistically competitive firm earns zero economic profit because:

► Of free entry and exit.

► It has excess capacity.

► It has the ability to set price.

► Other firms produce a perfect substitute.

Question No: 13 (Marks: 1) - Please choose one

Indifference curves are convex to the origin because of:

► Transitivity of consumer preferences.

► The assumption of a diminishing marginal rate of substitution.

► The assumption that more is preferred to less.

► The assumption of completeness.

Question No: 14 (Marks: 1) - Please choose one

Which of the following is true regarding income along a price consumption curve?

► Income is increasing.

► Income is decreasing.

► Income is constant.

► The level of income depends on the level of utility.

Question No: 15 (Marks: 1) - Please choose one

A supply curve reveals:

► The quantity of output consumers are willing to purchase at each possible market price.

► The difference between quantity demanded and quantity supplied at each price.

► The maximum level of output an industry can produce, regardless of price.

► The quantity of output that producers are willing to produce and sell at each possible market price.

Question No: 16 (Marks: 1) - Please choose one

Discrimination based upon the quantity consumed is referred to as second degree price discrimination.

► True

► False

Question No: 17 (Marks: 1) - Please choose one

Restricted entry is another characteristic of monopolistic competition.

► True

► False

Question No: 18 (Marks: 1) - Please choose one

In a perfectly competitive labor market, a firm hires labor until the marginal revenue product of labor equal the wage rate.

► True

► False

Question No: 19 (Marks: 1) - Please choose one

According to kinked-demand-curve model, oligopolists match price cuts and price increases.

▶ True

▶ False

Question No: 20 (Marks: 1) - Please choose one

The shut down point for the firm is where price equals average cost.

▶ True

▶ False

Question No: 21 (Marks: 1)

Each seller has a very small share of the market in the **______________.**

Question No: 22 (Marks: 1)

Total revenue = **______________.**

Question No: 23 (Marks: 1)

In long-run equilibrium, economic profits are **_____________.**

Question No: 24 (Marks: 1)

Many countries use ___________and ____________to keep the domestic price of a product above world levels.

Question No: 25 (Marks: 1)

Government intervention without a market failure creates **__________.**

Question No: 26 (Marks: 3)

How oligopoly is different from perfect competition, monopoly and monopolistically competitive market?

Question No: 27 (Marks: 3)

Differentiate between consumer surplus and producer surplus.

Question No: 28 (Marks: 3)

If the elasticity of demand for the product is –2, find the marginal cost of the last unit produced.

Question No: 29 (Marks: 3)

When do competitive markets generate an inefficient allocation of resources or market failure? How can be the efficiency of these markets increased?

Question No: 30 (Marks: 3)

How can monopoly power of a monopolist be measured? What is the basic incentive behind monopoly power?

Question No: 31 (Marks: 10)

Examine this information for a monopoly product.

Price ($)	Quantity
10	1,000
8	2,000
6	3,000
4	4,000
2	5,000
.50	6,000

(a) Calculate total revenue.
(b) Calculate marginal revenue.
(c) What is the maximum output that the producer of this product would ever produce?
(d) Why would this firm never produce more than the output amount in part c?

(3+3+2+2)

Question No: 32 (Marks: 10)

a. Define demand curve. Briefly explain non price determining variables of demand. (2+4)
b. If the market price is above and below the equilibrium level how will market adjust to reach the equilibrium point? (2+2)