

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY EXAMINATION 2022
FOR BAED 2, BS. GENERAL 2 AND BS. ECON AND STAT 2
COURSE UNIT: MICRO ECONOMICS II

Date: Wednesday 19 January 2022

Time: 02:00 - 05:00 PM

● **Instructions to candidates**

- I. Section A is **compulsory** and carries 40 points
- II. Attempt any **two questions from section B** and each question carries 30 points
- III. Use of relevant contextual examples and illustrations will attract extra marks
- IV. Sharing calculators, pencils and rulers is not acceptable.
- V. Attempt each question on a separate sheet
- VI. Mobile phones are not allowed in the exam room

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8. What i.
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SECTION A: COMPULSARY

Respond by circling the most appropriate answer.

1. Micro economics 11 entails
 - A. The study of the macro economy
 - B. international community
 - C. application of macro model
 - D. individual firms and their functioning
 - E. C&D
2. The opportunity cost of going to college is
 - A. The total spent on food, clothing, books, transportation, tuition, lodging, and other expenses
 - B. The value of the best opportunity a student gives up to attend college.
 - C. Zero for students who are fortunate enough to have all of their college expenses paid by someone else.
 - D. Zero, since a college education will allow a student to earn a larger income after graduation.
 - E. None of the above
3. The PPF of the nation shows
 - A. How much production takes place with the existing resources?
 - B. The prices of products
 - C. The population
 - D. All the above
4. An outward shift of the PPF means
 - A. Increased size of the government
 - B. Economic growth
 - C. More consumption
 - D. More equality among citizens
 - E. None of the above
5. Which term describes the way a society organizes the production, distribution, and consumption of goods and services to meet people's needs and wants?
 - A. Mixed system
 - B. Economic system
 - C. Capitalism
 - D. Supply and Demand
6. In a market economy, economic activity is guided by
 - A. The government.
 - B. Corporations.
 - C. Central planners.
 - D. The president
 - E. Self-interest and prices.
7. Which of the following is not among the reasons why we need the government?
 - A. The government provides social services welfare services the poor and the needy
 - B. The government provides public goods and services
 - C. The government regulates market when there is a market failure
 - D. The government provides free food for every one

E. The government imposes laws and control to protect competitiveness of the industry

8. What Macro Economics is about?

- A. Study of financial position of the economy
- B. Study of the Economy at Micro Level.
- C. Study of financial position of the economy
- D. None of the above

9. The demand functions shows

- A. Prices of inputs and outputs
- B. Relationships between Output and input
- C. Factors affecting demand
- D. All of the above

10. In perfectly competitive market

- A. Firm is the price giver and the industry the price-taker
- B. Firm is the price-taker and industry the price maker
- C. Both are the price-takers
- D. None of them

11. Price discrimination is a situation when a producer

- A. Charges of different prices in different markets
- B. Charges same prices
- C. Charges many prices
- D. All of the above

12. The following are the key economic problem except

- A. Scarcity
- B. Poverty
- C. Opportunity cost
- D. choice

13. The following are perfect market except

- A. supermarkets
- B. universities
- C. private consultant
- D. petrol stations

14. The main ways of representing economic models are

- A. graphs and tables
- B. GDP and per capita Income
- C. laws and bi-laws
- D. Complex situation

15. Models are used to

- A. show cause and effect relationship in behavior
- B. To explain graphs
- C. To monitor and evaluate
- D. To explain equilibrium

16. In reality all economies are

- A. Capitalistic
- B. Mixed
- C. Planned
- D. Market

17. The study of behavior of the overall economy is

- A. Positive economics
- B. Microeconomics
- C. Normative economics
- D. Macro economics

18. The maximum price is set

- A. above the equilibrium price
- B. At equilibrium price
- C. Below the equilibrium price
- D. At the demand curve

19. Producer surplus depends on

- A. price ceiling
- B. Cost price
- C. consumer ignorance
- D. market price

20. Equilibrium minimum wage is achieved where

- A. Demand for labor is high
- B. Supply for labour is low
- C. Both demand and supply are elastic
- D. Demand for labor is equal to supply for labor
- E. All the above

21. After graduating from high school, Steve had three choices, listed in order of preference: (1) matriculate at our campus, (2) work in a printed circuit board factory, or (3) attend a rival college. His opportunity cost of going to college here includes which of the following?

- a. the cost of books and supplies at the rival college
- b. the income he could have earned at the factory plus the direct cost of attending college here (tuition, textbooks, etc.)
- c. the benefits he could have received from going to the rival college
- d. only the tuition and fees paid taking classes here
- e. cannot be determined from the given information

22. Other things being equal, if income increases and as a result, the demand for good X decreases, then good X is:

- a. An inferior good
- b. A normal good.
- c. A substitute good.
- d. A complementary good.

23. Other things
a. Dem
b.

23. Other things being equal, if the price of coffee increases significantly, then:
- Demand for coffee substitutes will decrease.
 - Demand for coffee will decrease.
 - Demand for coffee substitutes will increase.
 - Quantity demanded for coffee will increase.
24. Wenetosi buys one soft drink a day. If the price goes up, she will buy zero drinks a day. Which of the following is correct with respect to Wenetosi?
- Price elasticity of demand for soft drinks is perfectly inelastic.
 - Price elasticity of demand for soft drinks is perfectly elastic.
 - Total expenditures will decrease if the price of soft drinks increases
 - There will be an increase in total revenue if the price of soft drinks decreases
25. Assume the price of good Y increases by 2% and the cross-price elasticity of demand with good X is 1. What economic classification describes good X in this situation?
- A normal good
 - An inferior good
 - A substitute
 - A complement
26. At an income of \$100, Shallon buys 10 cans of diet Pepsi. At an income of \$120, Flavia buys 12 cans of diet Pepsi. What economic classification describes George's demand for diet Pepsi?
- It is a normal good
 - It is an inferior good
 - It is a luxury good
 - It is a superior good
27. How is the long-run defined in economics?
- Less than one year
 - It requires that at least one input is fixed
 - It requires that all inputs are fixed
 - It requires that all inputs are variable
28. If Fred's MRS of salad for pizza equals to -5 (where salad is on the vertical axis), then which of the following is true?
- He would give up 5 pizzas to get the next salad
 - He would give up 5 salads to get the next pizza
 - He will eat 5 times as much pizza as salad
 - He will eat 5 times as much salad as pizza
 - He must trade 5 times as much
29. A normal good can be defined as one which consumers purchase more of as
- prices fall
 - prices rise
 - incomes fall
 - incomes increase
 - the prices of other products increase

30. If average total cost is decreasing in the short run
- Total costs are decreasing
 - Average variable cost is decreasing
 - Marginal cost is decreasing
 - Marginal cost is less than average total cost
 - B and D
31. You observe the following production relationship: $F(aK, aL) > aF(K, L)$. From this, you can conclude that
- the total cost of production is falling
 - the marginal product of L and K are increasing
 - there are increasing returns to scale
 - you should expand production
 - c and d
32. If average fixed cost is 40 and average variable cost is 80 for a given output, we then know that average total cost is
- 40
 - 120
 - 80
 - increasing
 - not possible to determine with the information given
- 33.. If in the short run, a perfectly competitive firm is producing at an output where price is greater than the minimum of long run average cost
- The firm will necessarily make a profit in the long run
 - The firm will necessarily make a profit in the short run
 - The firm will have to reduce its price in the long run
 - The firm will not cover its fixed costs
 - The firm will have exit in the long run
- 34.. In a short-run production process, the marginal cost is rising and the average variable cost is falling as output is increasing. Thus,
- average fixed cost is constant
 - marginal cost is above average variable cost
 - marginal cost is below average fixed cost
 - marginal cost is below average variable cost
 - average total cost is rising
35. When firms in monopolistic competition are earning an economic profit, firms will
- enter the industry, and demand will decrease for the original firms
 - enter the industry, and demand will increase for the original firms
 - exit the industry, and demand will increase for the firms that remain
 - exit the industry, and demand will decrease for the firms that remain
 - expand production their production if they are a "first mover" firm

36. What number is calculated as the total amount of product X produced divided by the number of workers employed by a firm?
- a. Total product
 - b. Average product
 - c. Marginal product
 - d. Average variable cost
37. If a firm is currently producing zero output in the short-run, what do its total costs equal?
- a. Zero
 - b. Marginal Costs
 - c. Total Variable Cost
 - d. Total Fixed Cost
38. The short-run can be defined as the time period where:
- a. At least one input is fixed.
 - b. All inputs are fixed.
 - c. All inputs are variable.
39. Assume that 1 laborer produced 10 units of output, 2 laborers produce 25 units, 3 produce 30 units, and 4 produce 33 units. If the cost is \$20 per unit of labor and fixed costs are \$100, how much is the average fixed cost of 33 units of output.
- a. \$100
 - b. \$3300
 - c. \$5
 - d. \$3.03
40. In question 39, what is the average variable cost of 33 units of output?
- a. \$10
 - b. \$40
 - c. \$2.42
 - d. \$20

SECTION B: ATTEMPT ANY TWO QUESTIONS OF YOUR CHOICE

Question 36

- a) Assuming you have been appointed as a new manager of a new micro enterprise in the central business area, how relevant is the knowledge of micro economics in your new appointment (15mks)
- b) Briefly describe how COVID 19 has affected micro enterprises in your country and advise on what you think need to be done to revamp their performance (15mks)

Question 37

- a) Explain the relationship between costs in the short run and costs in the long run. (10mks)
- b) Given that A firm has the following total cost and demand function. $TC = \frac{1}{3}Q^3 - 7Q^2 + 111Q + 50$ and $Q = 100 - P$.
 - I. Find profit maximising level of Output (6mks)
 - II. Find profit at this level of output (4mks)
 - III. Determine the TFC, the TVC (6mks)
- c) what do you understand by the concept of efficient minimum scale (3mks)

Question 38

- a) Of what relevance is profit maximization objective to operating firms. (10mks)
- b) How can the firm balance between short term and long term profit maximization (5mks)
- c) Other than profit maximization, state and explain other objectives that private firms seek to achieve in their operations (15mks)

Question 39

- a) Study the input -outputs table and fill in the missing levels of output (15mks)
- b)

Total variable factor (labour)	TP	AP	MP
1	8	-	-
2	20	-	-
3	36	-	-
4	-	10	-
5	55	-	-
6	-	10	-
7	60	-	-
8	59	-	-

- c) After filling in the table, use the table to explain the relationship between the total product, average product and marginal product (7mks)
- d) Using real life examples, explain why you think firms that over expand beyond their capacity are likely to encounter diseconomies of scale. (8mks)

Question 40

- a) Assuming you are a marketing manager expert, which pricing strategies would you advise monopoly and perfectly competitive firms to use and why (15mks)
- b) At what level would you advise a perfectly competitive firm to remain producing or to shut down and why. You can use a relevant model to explain your answer (15mks)

GOOD LUCK AND HAPPY NEW YEAR