



UNIVERSITY OF GUYANA
FINAL EXAMINATION 2017/2018
SEMESTER 1

FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
CODE AND NAME OF COURSE: ECN 1100 – INTRODUCTORY MICROECONOMICS

DATE AND TIME: 20th December 2017 at 13:00 Duration: 2.5 hrs

INSTRUCTION TO CANDIDATES:

THIS PAPER HAS A TOTAL WEIGHT OF 60% AND CONSISTS OF **TWO** SECTIONS. STUDENTS ARE REQUIRED TO ANSWER **ALL** QUESTIONS **IN SECTIONS A**, AND FOR SECTION B YOU **MUST ANSWER QUESTION 1** AND ANY OTHER ONE.

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LECTURER:

SECTION	POINTS AWARDED
A	
B	
TOTAL	

SECTION A- MULTIPLE CHOICE QUESTIONS (30 marks)

This section contains 30 multiple choice questions. You are required to ANSWER ALLL QUESTIONS in this section. Each correct response is worth 1 mark.

- 1) **In which of the following industry structures is the entry of new firms the most difficult?**
 - A) oligopoly
 - B) monopolistic competition
 - C) pure monopoly
 - D) pure competition
- 2) **A one-firm industry is known as:**
 - A) monopolistic competition
 - B) pure competition
 - C) pure monopoly
 - D) oligopoly
- 3) **An industry comprised of a very large number of sellers producing a standardized product is known as:**
 - A) oligopoly
 - B) pure monopoly
 - C) monopolistic competition
 - D) pure competition
- 4) **An industry comprised of a small number of firms, each of which considers the potential reactions of its rivals in making price-output decisions is called:**
 - A) oligopoly
 - B) pure competition
 - C) monopolistic competition
 - D) pure monopoly
- 5) **The relationship between the inputs that a firm uses and the output that it produces is described by:**
 - A) a production function
 - B) a marginal cost function
 - C) an average cost function
 - D) a consumption function
- 6) **Price discrimination refers to:**
 - A) selling a given product for different prices at two different points in time.
 - B) the difference between the prices a purely competitive seller and a purely monopolistic seller would charge
 - C) any price above that which is equal to a minimum average total cost.
 - D) the selling of a given product at different prices that do not reflect cost differences.
- 7) **If a monopolist engages in price discrimination, we can expect:**
 - A) profits to increase and output to fall.
 - B) both profits and output to decrease
 - C) both profits and output to increase.
 - D) the demand curve to lie below the MR curve.
- 8) **Suppose a firm is producing 500 units of output, incurring a total fixed cost of \$5,000 and average total cost of \$30. It can be concluded that the average variable cost is:**
 - A) \$50
 - B) \$20
 - C) \$30
 - D) \$15,000
 - E)
- 9) **In economics, pollution is considered to be a:**
 - A) negative economy
 - B) a negative externality
 - C) a positive externality
 - D) a necessity

10) The primary characteristic that distinguishes monopolistic competition from perfect competition is:

- A) the number of firms in the industry
- B) the nature of the product
- C) the ease of entry into and exit from the industry
- D) zero economic profits or breaking even in the long run

11) A firm is encountering increasing returns to scale when it increases all of its inputs by 15% and as a result its output increases by:

- A) 12%
- B) 20%
- C) 15%
- D) 10%

12) Which of the following is a measure of average variable cost?

- A) Total Cost \div output
- B) Average Total Cost + Average Fixed Cost
- C) (Total Cost – Total Fixed Cost) \div output
- D) Total Variable Cost \times output

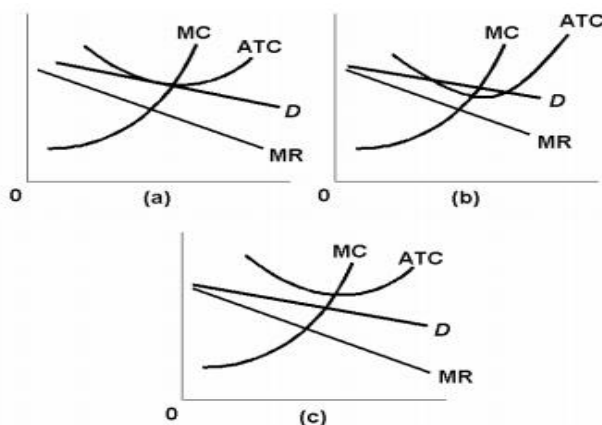
13) Which of the following statement is correct regarding production in the long run:

- A) The firm can vary some of its inputs whilst the others are fixed
- B) The firm experiences diminishing marginal returns
- C) All inputs are fixed
- D) All inputs can be varied

14) Under monopoly, the marginal revenue (MR) curve for a firm is:

- A) horizontal
- B) the same as the demand curve
- C) above the demand curve
- D) below the demand curve

Use the following to answer questions 15-17:



15) Refer to the above diagrams, which pertain to monopolistically competitive firms. Short-run equilibrium entailing economic loss is shown by:

- A) diagram a only.
- B) diagram b only.
- C) diagram c only.
- D) both diagrams a and c.

16) Refer to the above diagrams, which pertain to monopolistically competitive firms. A short-run equilibrium entailing economic profits is shown by:

- A) diagram a only.
- B) diagram b only.
- C) diagram c only.
- D) both diagrams b and c.

17) Refer to the above diagrams, which pertain to monopolistically competitive firms. Long-run equilibrium is shown by:

- A) diagram a only.
- B) diagram b only.
- C) diagram c only.
- D) both diagrams b and c.

18) Which of the following statements is correct?

- A) Purely competitive firms, monopolistically competitive firms, and pure monopolies all earn zero economic profits in the long run.
- B) Purely competitive firms, monopolistically competitive firms, and pure monopolies all earn positive economic profits in the long run.
- C) In the long run purely competitive firms and monopolistically competitive firms earn zero economic profits, while pure monopolies may or may not earn economic profits.
- D) Monopolistically competitive firms earn zero economic profits in both the short run and the long run.

19) In which of these continuums of degrees of competition (highest to lowest) is oligopoly properly placed?

- A) pure competition, oligopoly, pure monopoly, monopolistic competition
- B) oligopoly, pure competition, monopolistic competition, pure monopoly
- C) monopolistic competition, pure competition, pure monopoly, oligopoly
- D) pure competition, monopolistic competition, oligopoly, pure monopoly

20) The term oligopoly indicates:

- A) a one-firm industry.
- B) many producers of a differentiated product.
- C) a few firms producing either a differentiated or a homogeneous product.
- D) an industry whose four-firm concentration ratio is low.

21) Which of the following statements best illustrates the concept of derived demand?

- A) As income goes up the demand for farm products will increase by a smaller relative amount.
- B) A decline in the price of margarine will reduce the demand for butter.
- C) A decline in the demand for shoes will cause the demand for leather to decline.
- D) When the price of gasoline goes up, the demand for motor oil will decline.

22) When economists say that the demand for labour is a derived demand, they mean that it is:

- A) dependent on government expenditures for public goods and services.
- B) related to the demand for the product or service labour is producing.
- C) based on the desire of businesses to exploit labour by paying below equilibrium wage rates.
- D) based on the assumption that workers are trying to maximize their money incomes.

23) Marginal revenue product measures the:

- A) amount by which the extra production of one more worker increases a firm's total revenue.
- B) decline in product price that a firm must accept to sell the extra output of one more worker.
- C) increase in total resource cost resulting from the hire of one extra unit of a resource.
- D) increase in total revenue resulting from the production of one more unit of a product.

24) The labour demand schedule is identical with the:

- A) marginal product schedule.
- B) marginal revenue product schedule.
- C) marginal resource cost schedule.
- D) product demand schedule.

25) **The tendency for society to overuse and therefore abuse common resources is called the:**

- A) law of conservation of matter and energy.
- B) tragedy of the commons.
- C) law of diminishing returns.
- D) the Coase theorem.

26) **The two main characteristics of a public good are:**

- A) production at constant marginal cost and rising demand.
- B) non-excludability and production at rising marginal cost
- C) non-rivalry and non-excludability.
- D) non-rivalry and large spill-over costs.

27) **An example of a public good is:**

- A) broadband Internet access.
- B) homeland defense.
- C) a baseball.
- D) a lawn mower.

28) **The market system does not produce public goods because:**

- A) there is no need or demand for such goods.
- B) private firms cannot stop consumers who are unwilling to pay for such goods from benefiting from them.
- C) public enterprises can produce such goods at lower cost than can private enterprises.
- D) their production seriously distorts the distribution of income

29) **Total cost minus total variable cost equals:**

- A) average fixed cost.
- B) total fixed cost.
- C) average variable cost.
- D) marginal cost.

30) **A purely competitive firm's short-run supply curve is:**

- A) perfectly elastic at the minimum average total cost.
- B) Up-sloping and equal to the portion of the marginal cost curve that lies above the average variable cost curve.
- C) Up-sloping and equal to the portion of the marginal cost curve that lies above the average total cost curve.
- D) Up-sloping only when the industry has constant costs.

SECTION B – FILL IN THE BLANKS

Complete each sentence with the most appropriate word or words. ALL QUESTIONS MUST BE ANSWERED IN THIS SECTION. THIS SECTION IS WORTH 20 MARKS.

1) The shape of the demand curve for a perfectly competitive firm is _____.

2) Two sources of market failures are _____ and _____.

3) _____ are sometimes called spillovers or neighbourhood effects.

4) The accounting profit of a firm is equal to its revenue minus its _____ costs.

5) When the marginal product curve is below the average product curve, the average product must be _____.

- 6) Under which market structure do cartels generally develop?
_____.
- 7) The marginal rate of technical substitution is the same as the slope of a/an
_____.
- (8) _____ of scale occur on the portion of a firm’s long run average cost curve that is falling.
- (9) The minimum point on the long run average total cost curve is called the _____ of a firm.
- (10) A _____ is an illegal organisation of firms under the Oligopoly market structure that engages in collusive actions in order to make higher profits.

Question 1 (20 Marks)

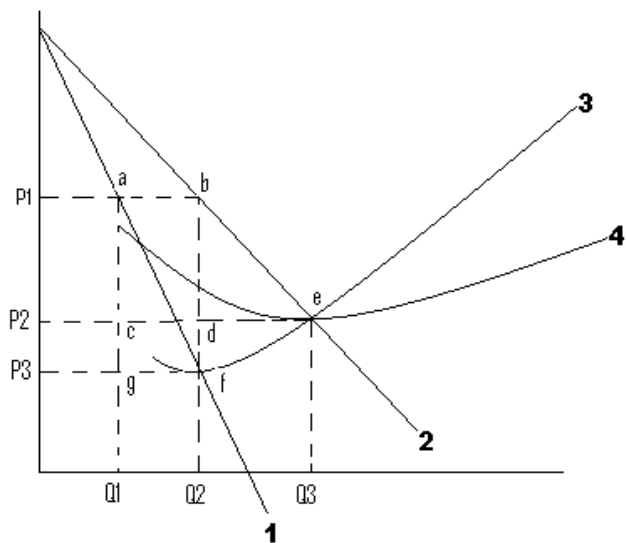
Consider the following production schedule for Morrow Firm

Input of Labour (units)	Total Product (units)	Average Product (units)	Marginal Product (units)
1	8		
2	20		
3	34		
4	46		
5	56		
6	62		
7	64		
8	64		
9	60		
10	50		

- (a) Fill in the columns in the table above for marginal product and average product.
(Round off answers to 1 decimal place) (5 marks)
- (b) Indicate from which unit of labour does diminishing marginal returns occur.
_____ units **(2 marks)**
- (c) Plot the marginal product curve. **(2 marks)**
- (d) **On the marginal product curve plotted in part (c),** indicate which portion reflects:-
- (i) that total product is at its maximum (denote with the letter M) **(2 mark)**
- (ii) that total product is increasing (denote with the letter I) **(2 mark)**
- (iv) that total product is decreasing (denote with the letter D) **(2 mark)**
- (e) Assume that although Morrow firm is presently making accounting profits it is experiencing negative economic profits in its current venture. The owner of the firm does not understand what this means and asks you to explain to him. Use the lines provided below for your explanation.

(5 mark)

Question 2 (10 marks)



(i) Determine the correct names for the curves shown in the diagram.

(a) Curve 1 is the _____ curve (1mark)

(b) Curve 2 is the _____ curve (1mark)

(c) Curve 3 is the _____ curve (1mark)

(d) Curve 4 is the _____ curve (1mark)

(e) In the diagram above, if the firm is a monopolist, the profit maximising level of output will be _____. (2marks)

(f) Shade the area which represents super profits to the firm. (2marks)

(g) How would the outcome be different if this market was perfectly competitive?

(2marks)

Question 3 (10 MARKS)

(A) Briefly define Market Failure (1 mark)

(B) Provide three examples of market failures. (3 marks)

1. _____
2. _____
3. _____

(C) Some have argued that one of government's main roles in the economy is to correct market failure when they occur. Discuss how the government can address the market failure problem in each of the examples that you listed in Part (b). **(6 marks)**

1. _____
2. _____
3. _____

END OF EXAMINATION