

# FINAL EXAMINATION

SESSION: JANUARY – MAY 2013

SUBJECT : PRINCIPLES OF ECONOMICS  
SUBJECT CODE : AED 1153  
COURSE CODE : DMB/ DSB/DFI  
SEMESTER : 1/3/2  
DURATION : 3 HOURS  
DATE : 29 MAY 2013

### *Instructions to candidates*

- (a) Answer **ALL** questions in Part A and Part B.
- (b) Answer any **THREE** questions in Part C.
- (c) Your answers should be written in blue or black ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.
- (d) Candidates may use calculators.

*This question paper consists of 8 pages excluding the front page*



**PART A: MULTIPLE CHOICE (20 Marks)**

Please answer in the provided answer sheets.

1. On a production possibilities curve, the opportunity cost concept is best represented by
  - A. the distance to the curve from the vertical axis
  - B. the distance to the curve from the horizontal axis
  - C. the movement along the curve
  - D. the shift of the curve outwards
  
2. An economy is usually described as a mixed economy, if production is
  - A. determined partly by the market mechanism and partly by the government
  - B. determined partly by the decisions of households and partly by the decisions of firms
  - C. made up partly of agricultural goods and partly of manufactured goods
  - D. partly for the domestic market and partly for export
  
3. The demand curve for good M is unit elastic. At a price of RM6, quantity demanded is 2,000 units. At what price will the quantity demanded increase to 10,000 units?
  - A. RM 30.00
  - B. RM 10.00
  - C. RM 1.00
  - D. RM 1.20
  
4. The demand curve for a good will tend to shift to the right when there is
  - A. an increase in the supply of a complementary good
  - B. an increase in the supply of a substitute good
  - C. a fall in the price of the good in world markets
  - D. an improvement in technology which lowers cost
  
5. If the government wishes to increase revenue by imposing an indirect tax, it would be most effective to place the tax on a product which
  - A. has a highly elastic demand
  - B. has many substitute goods
  - C. has a highly inelastic demand
  - D. is a non – essential
  
6. The following factors can decrease the supply of palm oil **except**
  - A. government reduces tax on inputs in palm oil industry
  - B. government decides to send back foreign workers in the agriculture sector
  - C. more oil palm estates have been converted to other estates
  - D. harvesting of oil palm during monsoon season



7. If the supply of a commodity is price inelastic, then a small percentage increase in price leads to
- A. a larger percentage increase in quantity
  - B. a smaller percentage increase in quantity
  - C. no change in quantity
  - D. a proportionate change in quantity
8. Macroeconomics is concerned about all except one of the following
- A. the general economic factors that determine income
  - B. the general price level
  - C. the production decisions involving consumer goods in a market
  - D. saving and investment from the standpoint of the whole economy
9. Two markets shown in the simple circular flow model are
- A. households and firms
  - B. products and resources
  - C. capital goods and consumer goods
  - D. all of the above
10. The net value added method of measuring national income is also known as the \_\_\_\_\_
- A. expenditure method
  - B. income method
  - C. savings method
  - D. product method
11. The total value of all goods and services produced in Malaysia is equal to
- A. national income
  - B. gross domestic income
  - C. gross national income
  - D. personal income
12. Gross domestic product (GDP) does not include
- (i) second – hand goods sold in the current time period
  - (ii) intermediate goods
  - (iii) home – made bakery
- A. i only
  - B. i and iii only
  - C. ii and iii only
  - D. i, ii and iii



13. National income equilibrium occurs when
- A. demand equals supply in the product market
  - B. aggregate supply equals the nominal value of national income
  - C. aggregate expenditures equals aggregate supply in the economy
  - D. total injections exceed total leakages
14. Suppose we bought for a basket of goods in 2001 and it cost RM350. Suppose the same basket of goods adds up to RM385 in 2002. If we use 2001 as a base year, what would be the 2002 Consumer Price Index (CPI)?
- A. 35
  - B. 90
  - C. 110
  - D. 135
15. Which of the following are not included in a money supply (M1)?
- A. Coins
  - B. Currency notes
  - C. Demand deposits
  - D. Bank Negara certificates in commercial banks
16. International trade differs from domestic trade because
- A. of usage of different units of currency in international trade
  - B. the size of the market is relatively bigger for international trade
  - C. resources are more mobile domestically than they are internationally
  - D. of all of the above reasons
17. Theory of specialization and free trade that will benefit all the trading partners is known as \_\_\_\_\_
- A. a comparative advantage
  - B. an absolute advantage
  - C. a mutual advantage
  - D. is none of the above
18. Which of the following is true about quota?
- A. A limit on the quantity of imported products
  - B. The prices of imported products to domestic consumers
  - C. The law that bars trade with another country
  - D. The ability of imported products to compete with domestic products



19. The rate at which goods are exchanged for one another in the international market is referred to as
- terms of trade
  - the exchange rate
  - an absolute advantage
  - a comparative advantage
20. The infant industry argument for protectionism is based on the concern that
- firms in a newly developing domestic industry will have difficulty growing if they face strong competition from established foreign firms
  - foreign buyers will absorb all of the output of domestic producers in a growing industry unless trade restrictions are imposed
  - the growth of an industry that is new to a nation will be too rapid
  - firms in an economy will not grow unless the economy is highly diversified

**PART B (50 Marks)**

Please answer all questions in the provided answer sheets.

**QUESTION 1 (10 Marks)**

The following table shows the amount of good H and Z demanded by the citizens of a particular country at different prices and consumer income levels.

Price of good H (RM per unit)	Quantity demanded for good H (unit)	Quantity demanded for good Z (unit)	Income of consumers (RM)
60,000	100,000	20,000	4,500
65,000	90,000	30,000	3,500
70,000	70,000	50,000	2,500
75,000	40,000	70,000	1,500
80,000	10,000	85,000	500

- Calculate the price elasticity of demand for good H if the price of good H increases from RM 70,000 to RM 75,000. Is the demand elastic or inelastic? (2 marks)
- Calculate the cross elasticity of demand for good Z when the price of good H decreases from RM 80,000 to RM 70,000. What is the relationship between the two goods? (2 marks)
- If the consumers' income level increases from RM 500 to RM 4,500, determine the income elasticity of demand for
  - Good H



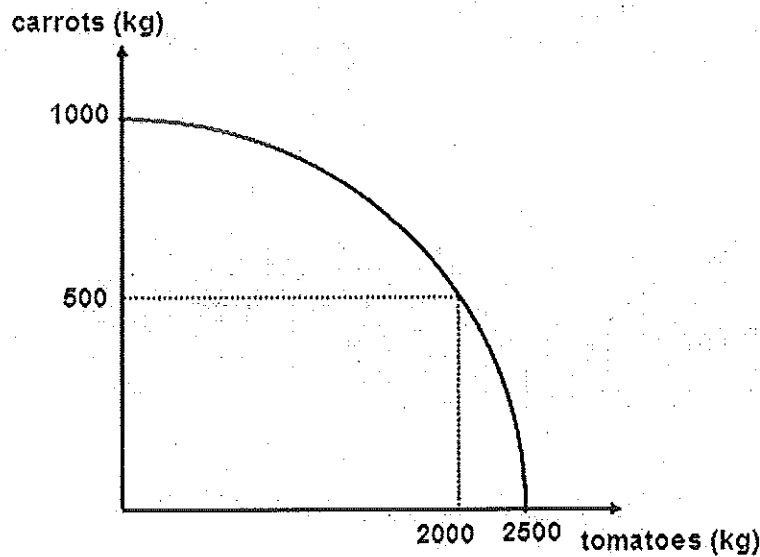
ii) Good Z

Based on your answer in (i) and (ii), state the type of good. (4 marks)

d) State two (2) factors that influence the price elasticity of demand for a good. (2 marks)

### QUESTION 2 (10 Marks)

The diagram below depicts the Production Possibilities Curve (PPC) for a nation producing carrots and tomatoes. The usual assumptions regarding PPC are implied.



- a) Calculate the opportunity cost of
- i) producing 2,500 kg of tomatoes (1 mark)
  - ii) increasing the production of carrots from 500 kg to 1,000 kg (1 mark)
- b) Is the value of opportunity cost increasing or constant? Justify your answer. (2 marks)
- c) Illustrate in separate diagrams the effect of the following situations on the Production Possibilities Curve (PPC)
- i) A massive flood hit the country (2 marks)
  - ii) An introduction of a new fertilizer that increases the yield of crops (2 marks)

