



THE COUNCIL OF COMMUNITY COLLEGES OF JAMAICA
ASSOCIATE OF SCIENCE EXAMINATION
SEMESTER III – 2017 AUGUST

PROGRAMME: BUSINESS STUDIES
COURSE NAME: MICROECONOMICS
CODE: ECON1101
YEAR GROUP: ONE
DATE: THURSDAY, 2017 AUGUST 10
TIME: 9:00 A.M. – 12:00 NOON
DURATION: 3 HOURS
EXAMINATION TYPE: FINAL

This Examination paper has 12 pages

INSTRUCTIONS:

- 1. THIS EXAMINATION PAPER CONSISTS OF TWO (2) SECTIONS: (A) AND (B)**
- 2. ANSWER ALL QUESTIONS FROM SECTION A**
- 3. SECTION B CONSISTS OF FIVE (5) QUESTIONS; CHOOSE ANY THREE (3)**

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SECTION B

*Instructions: Answer any **THREE (3)** questions from this section.*

Question 1

The economy of Dystopia can use its factors of production to produce two goods; gun and butter. In the production of these two commodities the economy faces an increasing cost production possibility boundary.

- A. i. Define the term scarcity. *(1 mark)*
- ii. Draw and label a graph of the production possibility boundary for Dystopia, putting butter on the horizontal axis and gun on the vertical axis. *(4 marks)*
- iii. Using the production possibility boundary in **(A.ii)** above:
1. Explain how the concept of opportunity cost is related to scarcity. *(5 marks)*
2. Tell how Dystopia could experience economic growth. *(3 marks)*
- B. i. State **TWO (2)** characteristics of a ‘command economy’ and a ‘market economy’. *(4 marks)*
- ii. Identify **TWO (2)** disadvantages of a command economy and discuss how each disadvantage can be overcome. *(8 marks)*

(Total 25 marks)

Question 2

A. Define the following terms:

- i. Demand *(2 marks)*
- ii. Supply *(2 marks)*
- iii. Equilibrium *(2 marks)*

B. The table below gives the individual weekly demand schedules of three buyers of jelly coconuts and the market supply of jelly coconuts.

| Buyers | Price of Jelly Coconuts | | | | |
|----------------------|-------------------------|----------|-----------|-----------|-----------|
| | \$50 | \$100 | \$150 | \$200 | \$250 |
| Joan | 12 | 9 | 6 | 1 | 0 |
| Harry | 10 | 7 | 5 | 1 | 0 |
| Noel | 8 | 5 | 3 | 0 | 0 |
| Market Demand | | | | | |
| Market Supply | 3 | 8 | 14 | 21 | 30 |

Copy the table above into your answer booklet and complete it to show the market demand for jelly coconuts. *(2 marks)*

C. Carefully draw and label a graph showing:

- i. equilibrium *(2 marks)*
- ii. equilibrium price *(2 marks)*
- iii. equilibrium quantity *(2 marks)*
- iv. excess demand *(2 marks)*

D. Using the arc method, calculate the price elasticity of demand for jelly coconuts between \$50 and \$150. *(5 marks)*

E. The Jelly Coconuts Farmers Association undertook a successful campaign to promote the health benefits of consuming jelly coconuts. With the aid of a diagram, show how this would affect the equilibrium price and equilibrium quantity of jelly coconuts in the market. *(4 marks)*

(Total 25 marks)

Question 3

- A. Distinguish between ‘normal profit’ and ‘abnormal profit’. *(4 marks)*
- B. i. State **TWO (2)** characteristics of the monopolistic competitive market structure. *(2 marks)*
- ii. Draw a diagram of a firm in monopolistic competition earning abnormal profits in the short run. Shade the area that represents the abnormal profit earned. *(6 marks)*
- iii. Explain what will happen to the abnormal profit of the firm in monopolistic competition in the long run. Give **ONE (1)** reason to justify your answer. *(5 marks)*
- C. Compare the long run situation of a firm in a monopolistic competition with that of a pure monopoly firm, by referring to the type of profits earned, the entry and the productive efficiency of firms. *(8 marks)*

(Total 25 marks)

Question 4

A perfectly competitive firm has a fixed cost of \$128 000. Its output levels and variable costs are shown in the table below:

| Output Level | Variable Cost \$ | Total Cost \$ | Marginal Cost \$ | Average Fixed Cost \$ | Average Total Cost \$ |
|--------------|---------------------|------------------|---------------------|--------------------------|--------------------------|
| 0 | 0 | 128 000 | - | - | - |
| 1 | 50 000 | | | | |
| 2 | 90 000 | | | | |
| 3 | 108 000 | | | | |
| 4 | 116 000 | | | | |

- A. Write the formula for each of the following costs:
- Total cost
 - Marginal cost
 - Average fixed cost
 - Average total cost
 - Average variable cost
- (5 marks)*
- B. Copy and complete the table to show the **FOUR (4)** costs for each level of output.
- (8 marks)*
- C. With the aid of a diagram, explain the relationship between the marginal cost and the average cost.
- (6 marks)*
- D. Discuss **TWO (2)** reasons that perfect competition in the long run is said to be the most efficient market structure.
- (6 marks)*

(Total 25 marks)

Question 5

- A. i. Define the term 'externality'. *(2 marks)*
- ii. Give **ONE (1)** example of a positive externality and **ONE (1)** of a negative externality. *(2 marks)*
- iii. Define 'merit good'. *(2 marks)*
- B. i. Explain what is meant by 'market failure'. *(2 marks)*
- ii. Explain, with the aid of a diagram, how merit goods contribute to market failure. *(9 marks)*
- C. Evaluate **TWO (2)** measures that the government can use to correct market failure caused by merit goods. *(8 marks)*

(Total 25 marks)

END OF EXAMINATION