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ECO402 Microeconomics

Final Term Examination – Spring 2005

Time Allowed: 150 Minutes

INSTRUCTIONS:

- All questions are compulsory.
- 第 This exam consists of **5** Multiple Choice Questions (MCQ's) and **5** descriptive questions.
- 第 Each MCQ carries 2 Marks each and Descriptive Questions carry **10** Marks each.
- 第 You should try to complete MCQ's in 10 - 15 minutes in order to give yourself 135 - 140 minutes for descriptive questions.
- 第 For each MCQ question, read the choices available and select the choice which you consider is the correct answer, by clicking on the appropriate check box.
- 第 Save your answer before proceeding to the next question.
- 第 Do not click the "Finish button" while solving your paper. Once you clicked the "Finish" button, you will not be able to access your paper again. Click it at the end of your paper. That means you have submitted your complete paper.
- 第 A clock is given in the exam software. Software will automatically be closed at the end of 90 minutes.
- 第 Remember not to spend too much time on any one MCQ. Since all MCQ's carry equal marks, it is important to manage your time and responses to test questions effectively.
- 第 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.

Total Marks: 60

Total Questions: 10

Question No. 1

Marks : 10

Suppose that you are the manager of watch making firm operating in a competitive market your cost of production is given by $C = 100 + Q^2$, where Q is the level of output and C is total cost. The marginal cost of production is $2Q$. The fixed cost of production is \$100. If the price of watches is \$ 60, how many watches should you produce to maximize profit?

Question No. 2

Marks : 02

The kink in the kinked demand curve arises because:

- ☐ there is a sharp, abrupt change in the price elasticity of demand
- ☐ entry into the industry is relatively easy
- ☐ monopoly profits are being made by some firms but not by others
- ☐ the products sold by each firm are different

Question No. 3

Marks : 10

Can perfectly competitive firms earn economic profit? Explain.

Question No. 4

Marks : 02

When an industry is classified as oligopolistic, it consists of:

- ☐ only one seller
- ☐ many sellers with similar products
- ☐ only a few sellers with either standardized or differentiated products
- ☐ only a few buyers

Question No. 5

Marks : 10

Suppose that the market demand function of a perfectly competitive industry is given by $QD = 4,750 - 50P$ and the market supply function is given by $QS = 1,750 + 50P$, and P is expressed in dollars. Find the market equilibrium price.

Question No. 6

Marks : 02

In the short run, the supply curve for a perfectly competitive industry:

- ☐ shifts to the right if new firms enter the industry
- ☐ is the sum of all individual firms' average total cost curves

- is horizontal
- does not change if firms leave the industry

Question No. 7

Marks : 10

Do you agree or disagree with each of the following statement. Explain your reasons.

- (a) Average fixed cost does not change as the output change.
- (b) Firms will never sells its product for less than it costs to produce it.

Question No. 8

Marks : 02

When the monopolistic producer practices price discrimination:

- different prices are used to ration different goods among different consumers
- different groups of consumers are charged different prices for the same good
- social welfare is improved
- all consumers are charged different prices for different goods

Question No. 9

Marks : 10

A sales tax of \$1 per unit of output is placed on one firm whose product sells for \$5 in a competitive industry.

- (a) How will this tax affect the cost curves for the firm?
- (b) Will there be entry or exit?

Question No. 10

Marks : 02

The monopolistic producer:

- is not concerned with the cost of production since higher cost can be passed on to consumers
 - tries to maximize total revenue
 - usually produces in the inelastic range of the demand curve
 - tries to minimize the cost of producing a given level of output
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