Summer Examinations 2015

ECN10115N

MODULE TITLE
Introduction to Microeconomics

LEVEL
Four

TIME ALLOWED
Two Hours

Instructions to students: This paper has 3 sections.

Instructions for Section A:
- Enter your student number not your name in the space below.
- Answer all questions by circling your chosen answer.
- This section carries 20% of the overall marks.
- Students are not permitted to remove this examination paper from the examination room. For all purposes the examination paper remains the property of the University of Northampton.

Instructions for Section B:
- Enter your student number not your name in on all answer books.
- Answer all questions.
- This section carries 60% of the overall marks.
- Answer these questions on answer books. Only work recorded in answer books will be assessed.

Instructions for Section C:
- Enter your student number not your name in on all answer books.
- This section contains one compulsory question.
- This section carries 20% of the overall marks.
- Answer this question on an answer book. Only work recorded in answer books will be assessed.

The use of a non-programmable calculator is permitted for this paper.

Neither books nor notes may be taken into the examination.

Student Number: .................................

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Page 1 of 5
Section A

Answer all questions by circling your chosen answer

1. A rise in the price of takeaway kebabs will cause the demand curve for takeaway pizzas to:
   a. become steeper.
   b. remain unchanged.
   c. shift to the right.
   d. shift to the left.

2. A decrease in supply for a normal good will:
   a. raise both the equilibrium price and equilibrium quantity.
   b. reduce both the equilibrium price and equilibrium quantity.
   c. raise equilibrium price and reduce equilibrium quantity.
   d. reduce equilibrium price and raise equilibrium quantity.

3. A basic economic hypothesis is that the ______ the price of a product, the ______ the quantity that will be demanded, other things being equal.
   a. lower, lower
   b. higher, higher
   c. higher, lower
   d. better, worse

4. If the demand curve for eggs shifts to the right when the price of bacon rises, this would suggest that:
   a. bacon and eggs are substitutes.
   b. bacon and eggs are complements.
   c. either bacon or eggs is an inferior good.
   d. consumers’ tastes have changed.

5. If fish and chips are complementary goods, a fall in the price of fish will:
   a. shift the demand curve for chips to the right.
   b. shift the demand curve for chips to the left.
   c. make the demand curve for chips steeper.
   d. shift the supply curve for chips to the right.
6. Which of the following statements is **incorrect**?

a. The price elasticity of demand is a measure of the responsiveness of demand to a change in price, when all other factors remain equal.

b. The price elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in price that brought it about.

c. The price elasticity of demand shows the increase in price with a change in demand.

d. None – all of the statements are correct.

7. When elasticity is numerically greater than one, demand is said to be:

a. elastic.

b. inelastic.

c. unit elastic.

d. perfectly inelastic.

8. The original price and quantity demanded for coffee are £5 and 200 respectively and there is an increase in price to £6. If the elasticity of demand is \(-1.5\), the new quantity demanded will be what?

a. 60

b. 140

c. 160

d. 260

9. If a change in price from £400 to £450 raises the supply of handmade bookcases from 5,500 to 6,325 per year, the elasticity of supply is what?

a. +0.833

b. +16.5

c. –1.2

d. +1.2

10. A perfectly inelastic demand:

a. can be illustrated with a vertical demand curve.

b. can be illustrated with a horizontal demand curve.

c. has a value of infinity.

d. has a value of one.

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End of Section A
Section B follows overleaf
Section B

Answer all questions

11. Complete the blanks in the table below:

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<th>Variable Cost</th>
<th>Total Cost</th>
<th>Marginal Cost</th>
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12. Suppose a company produces combs with labour that costs $25/hour and $100 of fixed capital. Complete the blanks in the table below:

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13. Imagine a consumer with utility equation U(x, y) = x^2 + y^2 where x pizza and y beer. The marginal utilities MUx = 2y and MUy = 2x. His income is $120. Calculate his optimal basket when Px = 10 and Py = 2.
Section C

This section contains one compulsory question

Your answer should be a maximum of two paragraphs – no more than one page.

14. Explain what a natural monopoly is and how the natural barriers to entry are created. (Draw the analogous figure)