



STAMFORD COLLEGE

SCHOOL OF HUMAN RESOURCE MANAGEMENT

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

DHRM 205: MICROECONOMICS

Date : 18 December 2006 (Monday)

Time : 9.30 am –12.30 pm

Duration: 3 hours

Instructions to Candidates

Answer FOUR out of SIX questions.

Please ensure that this examination paper contains SIX questions on TWO printed pages before you start the examination.

Books, papers and other written materials are not allowed to be brought into the examination hall. A candidate who violates the examination rules of Stamford College or commits a malpractice will be disqualified from the examination.

Candidates may use calculators provided the calculators give no printout, have no work display facilities, are silent and cordless.

Write your Examination Index Number on each page of your answer booklet.

Answer any FOUR out of SIX questions.

Question 1

Compare and contrast the command economic system and the price mechanism economic system. (25 marks)

Question 2

Using demand and supply analysis explain the effect on the equilibrium price and quantity traded of car for each of the events below. (Consider each event separately.)

- a) An increase in the price of petroleum. (5 marks)
 - b) The reduction in the amount of loan available for the purchase of cars. (5 marks)
 - c) The imposition of sales tax on each unit of car sold. (5 marks)
 - d) Recession in the country (5 marks)
 - e) Decrease in the price of steel. (5 marks)
- (Total = 25 marks)

Question 3

- a) Clearly differentiate the characteristics and profits equilibrium of perfect competition and monopoly. (15 marks)
 - b) Explain why a firm in perfect competition only enjoys a normal profit in the long run. (10 marks)
- (Total =25 marks)

Question 4

- a) Define the concept of elasticity of demand. (5 marks)
 - b) Why is the demand for some goods elastic while for some others inelastic? (12 marks)
 - c) Increasing the price of the product does not necessarily mean higher profits. Comment. (8 marks)
- (Total = 25 marks)

Question 5

Firm X has the following cost schedules:

Output	Variable cost	Total cost
0	0	60
1	30	90
2	50	110
3	64	124
4	84	144
5	102	162
6	122	182
7	152	212
8	212	272
9	312	372

The price of the product is fixed at RM 60.

a) Explain what is meant by:

- i) Total cost
- ii) Marginal cost
- iii) Average cost

(9 marks)

b) Calculate for firm X the:

- i) Average cost
- ii) Marginal cost
- iii) Average fixed cost

(6 marks)

c) At what level of output will the firm's profit be maximized and what will be the profit level of this firm. Explain whether the firm should close down if it cannot cover its average costs.

(10 marks)

(Total = 25 marks)

Question 6

a) Explain the consequences on the Production Possibilities Curve (PPC) between two goods – (consumer and investment goods), given the following changes:

- i) Discovery of new resources
- ii) Development of latest technology on consumer goods

(3 marks)

b) The effect of increasing opportunity cost on the Production Possibilities Curve.

(4 marks)

c) “When price increases, quantity demanded will fall and when demand falls, price will decrease”. Explain this statement. .

(12 marks)

b) Distinguish between the short run and the long run in economics

(6 marks)

(Total = 25 marks)

-END OF PAPER-