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	MIDTERM EXAMINATION FALL 2006 ECO402 - MICROECONOMICS (Session - 3)	Marks: 40 Time: 60min

StudentID/LoginID: _____

Student Name: _____

Center Name/Code: _____

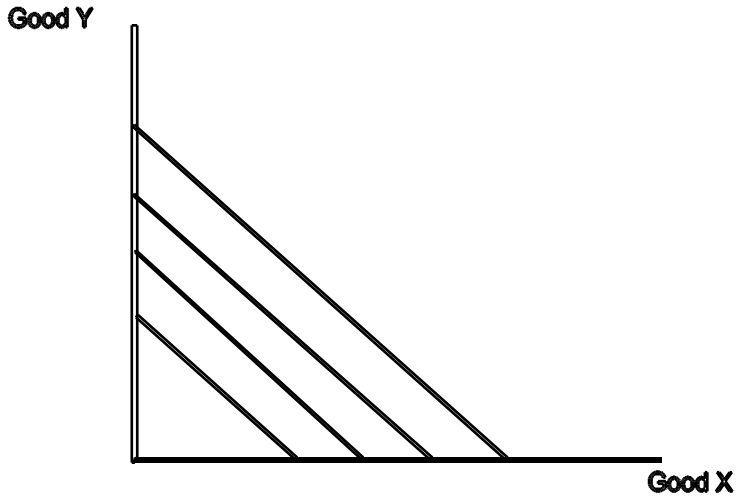
Exam Date: Wednesday, November 22, 2006

- All questions are compulsory.
- This exam consists of 10 Multiple Choice Questions (MCQ's) carrying 1 mark each,5 fill in the blanks carrying 1 mark each, 5 Short questions carrying 3 marks each and 1 Descriptive questions carrying 10 marks.
- You are required to show all the working of short questions as well as Descriptive question.
- This examination is closed book, closed notes, closed neighbors.
- Use of calculator is allowed in the examination.
- Do not ask any questions about the contents of this examination from anyone.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.
- 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.

For Teacher's use only											
Question Marks	1	2	3	4	5	6	7	8	9	10	Total
Question Marks	11	12	13	14	15	16	17	18	19	20	
Question Marks	21										

Question No: 1 (Marks: 1) - Please choose one

Alvin's preferences for good X and good Y are shown in the diagram below.



Based on given Figure, it can be inferred that:

- ▶ Alvin does not consider good X as "good."
- ▶ Alvin will never purchase any of good Y.
- ▶ Alvin regards good X and good Y as perfect substitutes.
- ▶ Alvin regards good X and good Y as perfect complements.

Question No: 2 (Marks: 1) - Please choose one

An increase in income, holding prices constant, can be represented as:

- A change in the slope of the budget line.
- A parallel outward shift in the budget line.
- An outward shift in the budget line with its slope becoming flatter.
- A parallel inward shift in the budget line.

Question No: 3 (Marks: 1) - Please choose one

The short run, as economists use the phrase, is characterized by:

- A period where the law of diminishing returns does not hold.
- At least one fixed factor of production, and firms neither leaving nor entering the industry.
- All inputs being variable.
- No variable inputs - that is all of the factors of production are fixed.

Question No: 4 (Marks: 1) - Please choose one

Which of the following inputs are variable in the long run?

- Labor.
- Capital and equipment.
- Plant size.
- All of the given options.

Question No: 5 (Marks: 1) - Please choose one

An isoquant:

- Must be linear.
- Cannot have a negative slope.
- Is a curve that shows all the combinations of inputs that yield the same total output.
- Is a curve that shows the maximum total output as a function of the level of labor input.

Question No: 6 (Marks: 1) - Please choose one

Coffee and cream:

- Are both luxury goods.
- Are complements.
- Are both more inelastic in demand in the long run than in the short run?
- Have a positive cross price elasticity of demand.

Question No: 7 (Marks: 1) - Please choose one

Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:

- The number of firms in the market.
- The extent to which any firm can influence the price of the product.

- The size of the firms in the market.
- The annual sales made by the largest firms in the market.

Question No: 8 (Marks: 1) - Please choose one

The theory of consumer behavior is based on certain assumptions. It includes at least the assumption(s) that preferences are:

- Complete.
- Transitive.
- Intransitive.
- Complete and Transitive.

Question No: 9 (Marks: 1) - Please choose one

Which of following is a key assumption of a perfectly competitive market?

- Firms can influence market price
- Commodities have few sellers
- It is difficult for new sellers to enter the market.
- Each seller has a very small share of the market.

Question No: 10 (Marks: 1) - Please choose one

What does it mean when the consumer price index CPI is higher this year than last?

- ▶ The rate of inflation has increased.
- ▶ There has been inflation since last year.
- ▶ Real prices have increased.
- ▶ Real prices have decreased.

Question No: 11 (Marks: 1)

Two goods are considered _____if an increase (decrease) in the price of one leads to an increase (decrease) in the quantity demanded of the other.

Question No: 12 (Marks: 1)

Shape of isoquant is_____.

Question No: 13 (Marks: 1)

_____ = TFC/Q + TVC/Q.

Question No: 14 (Marks: 1)

In _____increase in output is greater than the increase in inputs.

Question No: 15 (Marks: 1)

The marginal rate of technical substitution (MRTS) is _____at all points on the isoquant.

Question No: 16 (Marks: 3)

What are the advantages of joint production?

Question No: 17 (Marks: 3)

Define isocost line. What is the slope of isocost line?

Question No: 18 (Marks: 3)

Differentiate between increasing returns to cost and decreasing returns to cost.

Question No: 19 (Marks: 3)

If there is 10% chance of a $10,000 loss from a home burglary, what will be the expected loss?

Question No: 20 (Marks: 3)

Differentiate between positive and negative network externalities.

Question No: 21 (Marks: 10)

a. **Differentiate b/w elasticity of demand and supply with the help of formula.**

b. **Calculate income elasticity of demand with the help of example.**