



Course Code: ECN 101

Credit Units: 2

Course Title: Introductory Economics I

Instructions: Answer all questions in Section One and any 3 questions in section two

The examination carries 60 marks. Each Section Carries 30 marks

Time Allowed: 2 hours

SECTION ONE ANSWER ALL 30 QUESTIONS BY CHOOSING TRUE OR FALSE

1. The additional benefit above what you already derived is your marginal benefit
2. A cost that has already been incurred but cannot be retrieved is known as a sunk cost
3. I see my boyfriend every day and he meets me with a chocolate cupcake, according to utility theory with each additional day I will want more chocolate cupcakes
4. One of the strengths of a sole proprietorship is that many investors can pool their resources together and amass large sums of money to fund the business
5. Microeconomics is concerned with individual and firm choices and how those choices are influenced by economic forces
6. When the price of a good falls, consumers substitute that good for other goods, which become relatively more expensive, this is known as the income effect
7. One of the roles of government in economics is establishing and enforcing the rules of the game
8. In a market system, entrepreneurs are free to use economic resources to produce their choice of goods and services and sell them in their chosen markets
9. Indifference curves that lie farther from the origin show higher levels of utility
10. Governments should increase their revenue by arbitrarily raising taxes is a positive statement
11. The budget line shows the maximum combination of commodities you can consume given your resources
12. I am an avid young golf player but my parents have asked me to get a degree; the price I pay for giving up my golf tournaments so I can go to school is an implicit cost
13. A fall in price of a good leads to a decline in demand of the substitute good
14. The marginal cost curve shows the various quantities a supplier is willing to make available to the market at various prices and represents the supply curve of the firm
15. The average revenue is the per unit returns received on a commodity and is the same as the price for a competitive firm
16. If my demand for a commodity does not change in spite of a rise in its price it shows that my price elasticity of demand is perfectly inelastic
17. It's St Valentine's day and 50 of us want red velvet cakes for our girlfriends but there are only 40 cakes; the price of cake will rise
18. A monopolist can sell additional quantities through price discrimination
19. The marginal revenue curve is steeper than the demand curve for the monopolist
20. When a good has close substitutes and the price of that commodity rises my demand for that good is likely to be elastic
21. The average revenue is the return [revenue] you make per unit of a commodity and equals the price, in a perfectly competitive market
22. Workers monthly wages are an example of a fixed cost
23. Economies of scale give rise to imperfect markets
24. The monopolists' market equilibrium is not welfare enhancing because the firm makes fewer quantities available to the market in order to charge a higher price and make monopolistic profit
25. The perfectly competitive firm's market equilibrium is welfare enhancing because consumer surplus equals producer surplus
26. In the long run, the perfectly competitive firm can only make zero economic profit so that its average total cost equals its demand
27. A perfectly competitive firm that has its short run average total cost curve above the price should exit the market
28. An oligopolistic firm that raises the price of its goods risks losing some of its demand to its competitors
29. A market is a mechanism where buyers and sellers meet
30. The maximum output any firm will choose is where marginal revenue equals marginal cost ($MR=MC$)

SECTION TWO ANSWER ANY THREE QUESTIONS

Question One Use demand OR supply curves to show the effect of each of the following on the market for coca-cola

1. A cure for diabetes [a sugar induced diseases] is found (2 marks)
2. There is a new technology for producing carbonated drinks (like Pepsi and coca cola) (2 marks)
3. The price of Pepsi cola [a substitute good] increases (2 marks)
4. The price of food colouring a input into the production of carbonated drinks, falls (2 marks)
5. More states pass laws restricting sugar content [negatively affecting taste] in soft drinks (2 marks)

Question Two Study the market schedule for textile in the Table below

Scenario	Price per yard (N'000)	Quantity demanded	Quantity supplied
A	15	8	28
B	12	14	24
C	9	20	20
D	6	26	16
E	3	32	12

- a. Illustrate the market equilibrium prices and quantities (4 marks)
- b. Explain why this is the most efficient allocation of resources (4 marks)
- c. Explain why scenario D is not an efficient allocation of textiles (2 marks)

Question Three The following table represents a firm selling in a competitive market

a. Complete the table (2 marks)

Scenario	Quantity [units]	Price [N'000]	Total revenue [N'000]	Marginal revenue [N'000]	Average revenue [N'000]	Total cost [N'000]	Marginal cost [N'000]
A	0	6				3	
B	1	6				5	
C	2	6				8	
D	3	6				12	
E	4	6				17	
F	5	6				23	
G	6	6				30	
H	7	6				38	

- b. Illustrate the profit maximising point of the firm (2 marks)
- c. How much profit does the firm make at the profit maximisation point and why is this the optimal situation for the firm (4 marks)
- d. Identify the type of firm and explain one of its features/characteristics (2 marks)

Question Four The following table shows the possible combinations of pounded yam, at N 300 per plate and fruit juice at

Pounded yam per meal	Fruit juice per meal
0	6
1	4.5
2	3
3	1.5
4	0

N 200 per plate you can consume with a budget of N 1200

- a. represent your consumption options on a budget line (2 marks)
- b. imagine that the price of pounded yam declined ceteris paribus, represent the effect of this change on your budget line (2 marks)
- c. separate the effect represented in part b, where the price of pounded yam declined, into income and substitution effects (4 marks)
- d. Briefly explain any two properties of an indifference curve (2 marks)

Question Five You consider opening a business venture. It would cost you ₦ 300, 000 to rent the premises and you would have to give up your job where you are paid ₦ 125, 000. You withdraw N100, 000 from your savings account which was yielding N1,000 per year in interest rate to buy equipment. At the end of the year, you make N 500, 000 in profit.

- a. Calculate and explain your implicit cost? (4 marks)
- b. What is your accounting profit? (2 marks)
- c. Calculate and explain your economic profit (4 marks)