Boot-Camp Assessment [Paper 3] SA		Sub-sections (A)	
Issued On:	1^{st} July 2021	Exam Year [Batch]	**2022**
Deadline:	5^{th} July 2021	Format	**Virtual**
Marks : Time	**50 marks : 1 Hour**	Units - Essentials Covered	**1 – 4**

[01] Entrepreneurs do all of the following EXCEPT

(1) Organize labour, land and capital
(2) Come up with new ideas about what and how to produce
(3) Bear risk from business decisions
(4) Own all the other resources
(5) Make decisions about production

[02] Identify the incorrect statement.

(1) Goods that are unlimited in supply at zero price are free goods.
(2) An opportunity cost is incurred when producing an economic good.
(3) Classification of consumer and capital goods are based on usage.
(4) An economic good can sometimes become a free good
(5) Economic goods are the results of human decisions.

[03] The fundamental reason people face a trade-off when buying goods is because;

(1) Scarcity.
(2) Specialization.
(3) People engaging in exchange.
(4) The fact there are many different economic agents.
(5) The great abundance of free resources.

[04] Mr. Fernando decides to spend two hours playing golf rather than working at his job which pays Rs. 5,000 per hour. His trade-off and cost of it is,

(1) The increase in skill he obtains from playing golf for two hours.
(2) Nothing because he enjoys playing golf more than working.
(3) Nothing, because he spent Rs.2,000 for the membership to play golf.
(4) Nothing, because his membership to play golf is free.
(5) The Rs.10,000 he could have earned working for two hours.

[05] The price elasticity of demand measures the

(1) Responsiveness of a good's price to a change in quantity demanded
(2) Adaptability of suppliers when a change in demand alters the price of a good
(3) Proportionate responsiveness of quantity demanded to the same in a good's price
(4) Adaptability of buyers when there is a change in demand
(5) Responsiveness of quantity supplied to a change in quantity demanded

[06] If we observe that the price of a product has fallen and the quantity of the product has also fallen, which of the following must have occurred?

(1) Demand has shifted to the right.
(2) Demand has shifted to the left.
(3) Supply has shifted to the right.
(4) Supply has shifted to the left.
(5) None of the above.

[07] A decrease in the price of a particular good, with all other variables constant, causes

(1) A shift to a different demand schedule with higher quantities demanded
(2) A shift to a different demand schedule with lower quantities demanded
(3) A movement along a given demand curve to a lower quantity demanded
(4) A movement along a given demand curve to a higher quantity demanded
(5) No movement along a given demand curve unless supply also changes

[08] If the demand for shoes rises and the supply curve does not shift, then the price

(1) Will rise and quantity will fall
(2) And quantity will rise
(3) Will fall and quantity will rise
(4) And quantity will fall
(5) Will rise, but quantity may rise or fall

[09] Which of the following indicates that two goods are complements?

(1) A positive income elasticity.
(2) A horizontal demand curve.
(3) A negative cross- price elasticity.
(4) A demand elasticity greater than one.
(5) A positive cross –price elasticity.

[10] An excess supply of rice in a competitive market would indicate that,

(1) The problem of scarcity has been solved in that market.
(2) Buyers want to purchase more rice at the current price than the sellers want to sell.
(3) The market will not be able to approach equilibrium.
(4) The entire supply curve must shift to the left in order to attain equilibrium.
(5) The current price exceeds the equilibrium price.

[11] Which of the following generally takes place when a tax is placed on a good?

(1) A decrease in the price buyers pay, an increase in the prices sellers receive, and a decrease in the quantity sold.
(2) An increase in the price buyers pay, a decrease in the prices sellers receive, and an increase in the quantity sold.
(3) A decrease in the price buyers pay, a decrease in the prices sellers receive, and an increase in the quantity sold.
(4) An increase in the price buyers pay, a decrease in the prices sellers receive, and a decrease in the quantity sold.
(5) An increase in the price buyers pay, an increase in the prices sellers receive, and a increase in the quantity sold

[12] Suppose equilibrium price for apartments is Rs. 100,000 per month and the government imposes rent controls of Rs. 70,000. Which of the following is unlikely to occur as a result of the rent controls?

(1) There may be long lines of buyers waiting for apartments.
(2) Landlords may discriminate among apartment renters.
(3) Landlords may be offered bribes to rent apartments.
(4) There will be a shortage of housing.
(5) The quality of apartments will improve.

[13] In a monopolistic competition industry, a firm in long-run equilibrium will be operating where price is:

(1) Greater than average total cost (ATC) but equal to marginal cost (MC).
(2) Greater than ATC and greater than MC.
(3) Equal to both ATC and MC.
(4) Equal to both marginal revenue and MC.
(5) Greater than MC but equal to ATC.

[14] Which one of the following is an example of external costs?

(1) Mark purchases 10 books and pays 10% tax on the entire purchase.
(2) Ann sells an acre of land but has to pay to have the land surveyed before the sale is completed.
(3) Ravi opens a chocolate factory and offers free samples to neighbourhood children every Friday.
(4) Sam buys a piece of equipment for his factory.
(5) Jerry operates a noisy machine every morning, and scares away the birds from the local wildlife refuge.

[15] Which one of the following statements about price discrimination is incorrect?

(1) Offering reduced fares on public transport to students would be an example of price discrimination.
(2) For price discrimination to be possible, the seller must be able to control the supply of the product.
(3) Price discrimination is only profitable where the elasticity of demand is different in at least two of the market.
(4) An example of price discrimination is the sale of first class and second class ticket on an aero-plane journey.
(5) Charging a different rate for telephone calls according to the time of day is price discrimination.

[16] An individual firm in long term equilibrium in a perfect competitive market will produce at a level where:

(1) Marginal cost exceeds average revenue.
(2) Marginal cost is less than average revenue.
(3) Marginal cost and average revenue are equal.
(4) Marginal revenue is greater than average revenue.
(5) Marginal revenue is lesser than average revenue.

[17] If a firm's long-run Average Total Cost (ATC) is falling,

(1) There are economies of scale in production.
(2) There are diseconomies of scale in production.
(3) Costs per unit increase as output increases.
(4) Cost per unit remain constant as output increases.
(5) Cost per unit increasing even when output remain constant.

[18] In economics, the "long run" is a time period in which

(1) All inputs are variable.
(2) All inputs are paid for.
(3) All outputs are determined.
(4) All loans are repaid.
(5) All interest is paid.

[19] Which of the following is a positive economic statement?

(1) If the government increases its tax on gasoline, the price people pay for gasoline will rise.
(2) The government should not let the price of gasoline rise, because this increase would harm poor people.
(3) The government should let the price of gasoline rise, because this would help retired people who own stock in petroleum companies.
(4) The government ought not to control the price of gasoline, because its price should be determined in the free marketplace.
(5) None of the above, because they are all normative in nature.

[20] A firm will shut down in the short run if,

(1) Fixed costs exceed revenues.
(2) Total costs exceed revenues.
(3) It is suffering a loss.
(4) Variable costs exceed revenues.
(5) Total cost equals revenues.

[21] Oligopoly is the only market structure characterized by;

(1) Interdependence in pricing and output decisions among firms
(2) Differentiated products.
(3) Barriers to entry.
(4) Proft-maximizing behaviour.
(5) Number of firms.

[22] Which of the following are goods with zero marginal cost?
A. National defence
B. Lighthouse
C. Flood protection system
D. Street lighting

(1) B and C.
(2) A, B and C.
(3) B, C and D.
(4) C and D.
(5) All of them.

[23] All of the following are likely to lead an outward shift in the supply curve for a good, except

(1) The introduction of cost-reducing technology
(2) An increase in the price of the good
(3) A decrease in the price of a resource used to make the good
(4) A decrease in taxes on producers
(5) A decrease in wage rates

[24] A tax of Rs.10 per liter on petrol;

(1) Places a tax wedge of Rs 10 between the price the buyers pay and the price the sellers receive.
(2) Decreases the price the sellers receive by Rs. 10 per liter.
(3) Increase the price the buyers pay by Rs.10 per liter.
(4) Increase the price the buyers pay by Rs.10 and reduces the price received by sellers by precisely Rs. 10.
(5) Increase the price the buyers pay by precisely Rs.5 and reduces the price received by sellers by precisely Rs.5.

[25] If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are,

(1) Complements.
(2) Inferior goods.
(3) Normal goods.
(4) Substitutes.
(5) None of these answers.

MCQ Answer Summary

Question	Answer	Question	Answer
01	4	16	3
02	4	17	1
03	1	18	1
04	5	19	1
05	3	20	4
06	2	21	1
07	4	22	1
08	2	23	2
09	3	24	1
10	5	25	4
11	4		
12	5		
13	5		
14	5		
15	4		

Boot-Camp Assessment [Paper 3] SA		Sub-section (B)	
Issued On:	1st July 2021	Exam Year [Batch]	**2022**
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Marks : Time	**50 marks : 1 ¼ Hour**	Units - Essentials Covered	**1 – 4**

Question [01]

(A) **Distinguish** between a **'bad'**, a **'good'**, an **'economic good'** and a **'free good'**

- A good refers to anything (tangible) which provides a **positive satisfaction** or **utility.**
- An economic bad is anything which provides a **negative utility** or **dissatisfaction** (disutility). Examples for economics bads may include: **garbage, wild weeds, and prolusion.**
- An economic good is a good which is **finite or limited in supply**. Economic goods represents a resource cost and an **opportunity cost**, since its production uses limited resources.
- Non-economic or free goods are goods **available in abundance** (infinite or unlimited in supply) at zero price, when the supply is available. There is **no** resource cost or **opportunity cost** involved with free goods. Examples include **warmth from the sun, rain water, and fresh air**

[01 mark each, Total 04 marks]

(B) What is the **difference** between **'Capital'** and **'Human Capital?'**

Capital in economics refers to **manmade** production aids. Such capital items **'directly contribute'** in the process of producing goods and services. Capital consist of **real assets** such as factories, machinery and equipment, raw material stock etc.

Human capital refers to **competencies, skills, knowledge** and **interpersonal skills** acquired and developed by a given individual through investments on **education, receiving training** and **experience**.

[03 marks]

- Human capital is a competency which is **intangible** unlike physical capital
- Human capital is a combination of **attributes** from both **labour** and **capita**l resources.
- Unlike the investments done on other assets, the **investments** on human capital is **specific** to the **particular individual.**

[01 mark for one of the above points, total 04 marks]

(C) **Define** the term **'Entrepreneurship'** **[02 marks]**

Entrepreneurship is the **special human resource** which **organizes** the process of **producing** goods and services, by **mobilising land, labour and capital resources.**

[01 mark]

In addition to organizing the production process, an entrepreneur shall also engage in activities such as making basic policy level and **strategic business decisions**, introducing **innovations** on a commercial basis and **facing risk.**

[01 marks, total 02 marks]

Question [02]

(A) **Briefly discuss** the is implied by a **'Linear PPC',** especially on the behaviour of **'Opportunity Cost'** along such a PPC

[04 marks]

Fixed opportunity cost behaviour is a situation when moving along a PPC, increasing the output of one of the product categories by an equal number of units, the output of the other product is foregone or decreased by a fixed or consistent number of units.

A linear (or Straight-line) PPC implies fixed marginal opportunity cost, downwards and upwards along the curve.

[02 marks]

The fixed marginal opportunity cost behaviour along a linear PPC is mainly explained based on the following reasons

- ✓ The Homogeneous nature of production factors used within both industries [Perfect mobility or perfectly substitutable resources among industries]
- ✓ The similarity in production methodology and techniques used in both industries
- ✓ The productivity of production factors used in both industries is consistent or similar, leading to a constant resource combination rate, among the production of the two product categories under consideration.

[01 mark each, Sub-total 02 marks]
[Total 05 marks]

(B) **<u>Distinguish</u>** between a **market** and a **command** economic system, **specifically** based on their **key characteristics**

[06 marks]

	Free Market Economy	Centrally Planned Economy
1	Private Ownership of Production Resources	State/Public Ownership of Production Resources (Property Resources)
2	Private Entrepreneurship	Public Entrepreneurship
3	Price Mechanism	Central Planning Mechanism
4	All market participants, make decision incentivised by Self-interest	All main decisions such as resource allocation, output composition, output distribution etc, are made by a central planning committee, based on social (common) welfare
5	Producers' engage in intense competition, in order maximise profits	Lack of competition [State Monopoly]
6	Highly limited government role (laissez-Faire government)	Government is heavily involved and practices intervention in production, consumption, exchange, and all aspects of the economy
7	Relatively efficient resource utilization (productive efficiency)	Relative inefficient in resources utilisation: wastefulness, over or under production (productive inefficiency)
8	What to produce (what output) is determined by consumer needs	What to produce (what output) is determined based on basic needs
9	High degree of Economic freedom	Lack of economic freedom and consumer sovereignty
10	Macroeconomic instability	Macroeconomic stability
11	Inequalities in income and wealth distribution	Equality (Fairness) in income and wealth distribution
12	Dominant material incentives	Dominant coercive incentives, driven by power and authority

[01 mark each, Maximum 06 marks]

Even though the verb is 'Distinguish', a side by side differentiation is appropriate, only since the same feature is comparable

Question [03]

(A) **Distinguish** between a **'Normal Good', 'Inferior Good'** and a **'Giffen Good'**

A normal good refers to any good for which the consumer income and quantity demanded relationship tends to be positive or direct.

An inferior good refers to any product for which the consumer income and quantity demanded relationship tends to be negative or indirect.

A giffen good refers to any product for which the price and quantity demanded relationship tends to be positive or direct.

[01 mark each][Total 03 marks]

(B) **Briefly distinguish between Institutional Supply** and **Market Supply**

Institutional supply is the quantities of a given product, **an individual firm or producer** operating in the market is expecting and able to release to the market, at alternative prices which may exist in the market, when **other factors affecting supply remain constant** during a **specific period of time**.

Market supply is the sum of all the quantities of a given product, **all firms or producers** operating in the market are willing and ready to supply, at alternative prices which may exist in the market, when **other factors affecting supply remain constant** during a **specific period of time.**

[1 ½ marks each] [Total 03 marks]

(C) **Price elasticity of demand** and **law of demand** refer to similar concepts on account of the variables concerned; discuss this notion

[04 marks]

Price elasticity and Law of demand are **conceptually different**;

Price elasticity of demand measures the relative responsiveness of quantity demand to a change in price of a given product. Accordingly price elasticity of demand is the process of measuring and presenting the **percentage change** in **quantity demanded [%Δ Qd]** in response to a **percentage change** in **price [%Δ P]** of a given product, while all other **non-price factors** are **held constant**, at a given point of time.

[02 marks]

The law of demand represents the **negative or indirect** relationship between **price** [P] and **quantity demanded** [Qd], while all other or **non-price factors** affecting demand are **held constant** at a given point of time. In other words if price changes [ΔP], while non-price factors affecting demand are held constant; quantity demand shall change [ΔQd] in the opposite or indirect direction.

The **demand curve** for a **normal good** becomes **downwards sloping** from left to right and the **PED coefficient** value becomes **negative**, due to the **law of demand.**

[02 marks; Total 04 marks]

Question [04]

(A) Assume the market demand and supply equations pertaining to a given product is given below:

Qd = 35 – 5P
Qs = - 5 + 5P

Estimate the value of **Economic Surplus** at **equilibrium** **[06 marks]**

Qd = Qs
35 – 5P = -5 + 5P
$\frac{40}{10} = \frac{10P}{10}$
P = Rs. 4.00

Qd = 35 – 5P
= 35 – (5 x 4)
= 15 Units

Qs = -35 + 5P
= - 5 + (5 x 4)
= 15 Units

Equilibrium Price (Ep)	=	Rs. 4.00	
Equilibrium Quantity (Eq)	=	15 Units	**[01 mark]**

Maximum Demand Price:

Qd = 35 – 5P
0 = 35 – 5P
$\frac{5P}{5} = \frac{35}{5}$
P = 7

Minimum Supply Price:

Qs = -5 + 5P
0 = -5 + 5P
$\frac{-5}{-5} = \frac{-5}{-5}$
P = 1 **[02 marks]**

Consumer Surplus (CS)	=	[(7 – 4) x 15] ÷ 2	
	=	**Rs. 22.50**	**[01 mark]**
Producer Surplus (PS)	=	[(4 – 1) x 15] ÷ 2	
	=	**Rs. 22.50**	**[01 mark]**
Economic Surplus (ES)	=	CS + PS	
	=	22.50 + 22.50	
	=	**Rs. 45.00**	**[01 mark]**

[Total 06 marks]

(B) What are the **economic consequences** of a **maximum price** for an essential consumer good imposed by the government?

[04 marks]

- The creation of a product shortage (or excess demand of the product)
- The tendency for black markets to be created, where the product in shortage will be sold at prices higher than the control price.

[02 marks]

- The inevitable emergence of non-price rationing methods
  [long ques, rationing card system etc]
- The high cost of searching for goods in shortage: time and money spent
- Welfare effects: the producer surplus shall decrease and consumer surplus may increase.
- Inefficiency in resource allocation
- Parties facing poverty, and parties who are not economically empowered are able afford essential goods under the price control, they were previously unable to buy.
- The revenue of producers shall decrease, as they are forced to sell the product at a lower price

- The government will have to incur additional expenditure to solve the product shortage and make the price ceiling meaningful. In this process the government will have to redirect resources (funds) from other essential services to provide subsidies to the producers of the good under the price control.

[**01 mark each, maximum 02 marks]**
[Total 04 marks]

Question [05]

(A) What happens to the difference between **Average Total Cost (ATC)** and **Average Variable Cost (AVC)** as a firm's output expands in the short run? Explain

[04 marks]

When a firm operating in its short run, expands production or output the difference between average total cost (ATC) and average variable cost (AVC), tends to gradually decrease

[01 mark]

A difference between ATC and AVC is caused by average fixed cost (AFC)

As output or production is gradually increased the importance of AFC within ATC gradually diminishes, thereby the ATC curve shall gradually become closer to the AVC curve (i.e. the vertical distance between AVC and ATC reduces).

At a higher range of output AFC becomes a highly insignificant value within ATC, and AVC becomes the dominant element within ATC.

However at all output levels in the short run there will essentially be a difference between ATC and AVC, while this difference or gap shall diminish gradually as output or production is increased.

[01 mark any one of the above points for a maximum of 03 marks)
[Total 04 marks]

(B) **(I)** **Define** the term **'economies of scale'** **[02 marks]**

(II) How do economies of scale arise? **[04 marks]**

(I) Economies of scale refer to a situation or phenomenon in which, when a business expands its capacity or scale of operation in the long-run, its Average Total Cost (ATC or LRATC) tends to decrease.

It can be observed that due to increasing returns to scale and financial benefits of large scale production, technical economics of scale tends to be created.

(02 marks)

(II) How do economies scale arise (Sources or Reasons)

- **Technical economies**
  - Financial economies
  - Managerial economies
  - Marketing economies
  - Risk related economies (Economies of diversification)
  - Trading economies

(01 mark each, total 04 marks)