

MID SEMESTER EXAM
ECEU 600103 – INTRODUCTION TO MICROECONOMICS PE1
ODD SEMESTER 2016/2017

- TIME: 2 hours 45 minutes
- The problem weight are given. Answer the questions as accurately as possible!

Problem 1 (20%)

Describe in short but clear your understanding concerning the following concepts:

- a. Opportunity Cost
- b. Rational People Think at the Margin
- c. Diminishing Marginal Utility
- d. Marginal Rate of Substitution
- e. Production Possibilities Frontier
- f. Factors of Production
- g. Normative Statement
- h. Diamond-Water Paradox
- i. Ceteris Paribus
- j. Long Run Average Cost (LRAC) curve

Problem 2 (20%)

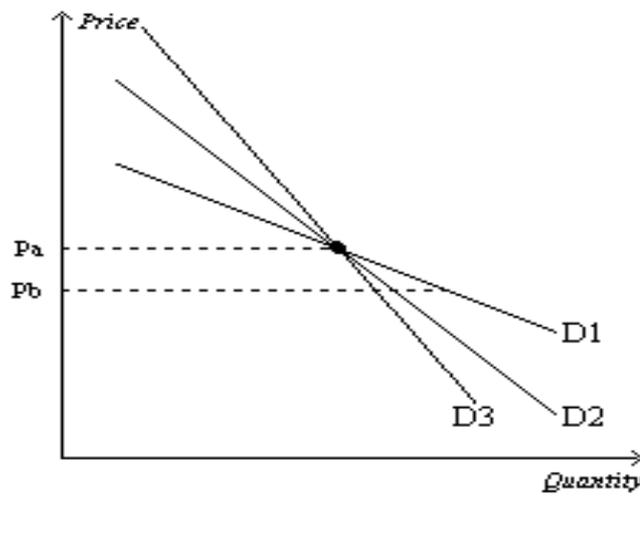
- a. Explain what do you mean by demand schedule and demand curve! How the two are correlated? (5%)
- b. Also explain what do you supply schedule and supply curve! How the two are correlated? (5%)
- c. Describe how the market is in equilibrium! (4%)
- d. Draw a graph and explain how are the effects of the following changes on the equilibrium price and quantity:
 - (i) Scientist states that orange consumption reduces diabetes risk, and simultaneously orange farmers utilize new fertilizer that can make orange trees to produce more oranges. (3%)
 - (ii) Technological advancement brings about a decline in the production cost of TV screen. (3%)

Problem 3 (20%)

- a. What does it mean by *Indifference Curve* (IC)? (4%)
- b. Why IC's are not allowed to cross each other? Explain! (4%)
- c. If Anita has a budget for recreation an amount of Rp 1.000.000 this semester. She has alternatives to watch movie or concert. Movie ticket costs Rp 50.000 and concert ticket price Rp 200.000. How Anita's *budget constraint*? (4%)
- e. What will happen if concert ticket increases to Rp 250.000? How are the effects on Anita's recreation choice? (4%)
- f. If it is assumed that the two alternatives are normal goods, draw graphs for the case of (c) and (d) by using the corresponding curves. (4%)

Problem 4 (22%)

a. Notice the following graph:



- (i) When the price declines from P_a to P_b , which demand curve the most elastic? Why? Which demand curve that have the smallest slope? Why? Explain the differences between elasticity and slope on a linear demand curve. (4%)
- (ii) Are the price elasticities of demand along the curves above have the same values? Explain! (4%)
- b. Mr. Ali has a car workshop "Makara" located in Jalan Margonda Depok. One of the services provided is car wash. In the last two months, Mr. Pak Ali has decided to raise the price of car washing from Rp 60.000,00 to Rp 75.000,00. The strategy has increased Mr. Ali's revenue from car wash from Rp 12.000.000,00 to Rp 13.500.000,00 per month.
- (i) Calculate the price elasticity of demand for car wash services of Mr. Ali. Explain is the price elasticity of demand characterized by elastic, inelastic, or unitary. (4%)
- (ii) Explain theoretically the relation between demand elasticity and total revenue of producer. (3%)
- c. In the last month, the seller of goods "Y" collect a revenue of \$100 from a selling of 50 units goods Y. In the month, Pada bulan ini, the sellers raise the price of goods "Y" and collect a revenue of \$120 from selling 40 units of goods Y. At the same time, the price of goods "X" unchanges, but the selling of goods "X" experiences an increase from 20 units to 40 units. Calculate the cross elasticity between X and Y and what is your conclusion? Explain! (7%)

Problem 5 (18%)

- a. Let us say that the price of a consumption goods increases, how do you explain the differences between income effect and substitution effect? Use graph to explain it! (7%)
- b. In the short-run as well as in the long-run, average total cost curve (ATC) always look like the letter U. Explain what factors that cause its characteristics. (5%)
- c. Explain the relation between cost curve and production curve of a company in the short run! Utilize the graph! (6%)

*** Enjoy Your Answer ***