PART A

INSTRUCTIONS: 1. THERE ARE TWO (2) QUESTIONS IN THIS PART.
                2. ANSWER BOTH QUESTIONS.

Question 1

a. The New York Times (Nov. 30, 1993) reported that ‘the inability of OPEC to agree last week to cut production has sent the oil market into turmoil [leading to] the lowest price for domestic crude oil since June 1990’.

   i) OPEC is the largest cartel in the world. Explain what is meant by a cartel? [2 marks]

   ii) Why were the members of OPEC trying to agree to cut production? [3 marks]

   iii) Why do you suppose OPEC was unable to agree on cutting production? Why did the oil market go into ‘turmoil’ as a result? [5 marks]

b. i) Discuss the disadvantages of monopoly. [4 marks]

   ii) Give an example of a government-related monopoly. Is creating this monopoly necessarily bad public policy? Explain. [6 marks]

   [TOTAL: 20 MARKS]

Question 2

a. What is the difference between the quantity supplied of corn and the supply of corn? What could cause a rise in the quantity supplied of corn, and what could cause a rise in the supply of corn? How would these changes be shown graphically using a supply curve? [5 marks]

b. A person argues that if the prison sentences for all crimes were doubled, this would worsen the problem of overcrowded prisons, all other things being equal. Use the concept of demand to explain why this argument is incorrect. [5 marks]

c. Historically, investors have considered gold commodities to be a good investment to preserve wealth in times of inflation. If investors are no longer worried about inflation and gold demand decreases, what do you expect will happen to gold prices? How would your answer change if you learn that a recent gold mine discovery will increase the supply of gold? [5 marks]
d. Suppose that due to more stringent environmental regulation it becomes more expensive for steel production firms to operate. Also, recent technological advances in plastics have reduced the demand for steel products. Use Supply and Demand analysis to predict how these shocks will affect equilibrium price and quantity of steel. Can we say with certainty that the market price for steel will fall? Why?

[5 marks]

[TOTAL: 20 MARKS]

PART B

INSTRUCTIONS: 1. THERE ARE FIVE (5) QUESTIONS IN THIS PART.
2. ANSWER THREE (3) QUESTIONS ONLY.

Question 1

a. The market demand for TehTarik has been estimated as:

\[ P = 140 - 0.2Q \]

where \( P \) is price (RM per pack) and \( Q \) is the sales quantity. The market supply is expressed as:

\[ P = 20 + 0.1Q \]

Determine the equilibrium market output and price for TehTarik.

[5 marks]

b. AlikopiSdn. Bhd. produces coffee that is sold in packets. The market for packet coffee is highly competitive, where each packet coffee is selling for RM4 per packet (Q). Alikopi’s total and marginal cost curves are:

\[ TC = 400 + 0.02Q^2 \]
\[ MC = 0.04Q \]

i) Calculate Alikopi’s profit maximizing or loss minimizing quantity.

[5 marks]

ii) What is Alikopi’s profit/loss?

[4 marks]

iii) Discuss the characteristics of a perfect competition market.

[6 marks]

[TOTAL: 20 MARKS]
Question 2

Wombat Bhd. has the following total cost curve:

\[
TC = 65400 + 4Q + 0.1Q^2
\]

a. Find the firm’s marginal cost (MC) curve. [3 marks]

b. A monopolist faces the following demand curve, marginal revenue curve, total cost curve and marginal cost curve for its product:

- \[ Q = 400 - 2P \]
- \[ MR = 200 - Q \]
- \[ TC = 4Q \]
- \[ MC = 4 \]

i) What is the profit maximizing level of output? [4 marks]

ii) What is the profit maximizing price? [4 marks]

iii) How much profit does the monopolist earn? [4 marks]

iv) Discuss the sources of barriers to entry for a monopolist. [5 marks]

[TOTAL: 20 MARKS]

Question 3

AliKopi is a small coffee company that is considering to enter a market dominated by KopiKuat. Each company’s profit depends on whether AliKopi enters and whether KopiKuat sets a high price or a low price.

<table>
<thead>
<tr>
<th></th>
<th>High Price</th>
<th>Low Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>KopiKuat</td>
<td></td>
<td>K.liKopi</td>
</tr>
<tr>
<td>High</td>
<td>KopiKuat makes $3m</td>
<td>K.liKopi makes $1m</td>
</tr>
<tr>
<td></td>
<td>AliKopi makes $2m</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>K.liKuat makes $7m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AliKopi makes zero</td>
<td>K.liKopi makes zero</td>
</tr>
<tr>
<td></td>
<td>AliKopi makes zero</td>
<td></td>
</tr>
</tbody>
</table>

3
Question 4
The following table reports the regression result of a beef demand model.

<table>
<thead>
<tr>
<th>Beef demand model (Dependent variable = Beef Quantity)</th>
<th>Coefficient</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef Price</td>
<td>-0.315</td>
<td>0.056**</td>
</tr>
<tr>
<td>Chicken Price</td>
<td>0.851</td>
<td>0.003***</td>
</tr>
<tr>
<td>Income</td>
<td>0.337</td>
<td>0.044**</td>
</tr>
<tr>
<td>Constant</td>
<td>3.262</td>
<td>0.379*</td>
</tr>
<tr>
<td>N</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.83</td>
<td></td>
</tr>
</tbody>
</table>

***α < 0.01, **α < 0.05, *α < 0.10

a. Calculate the point price elasticity of demand for beef (Beef Price = 25; Chicken Price = 10; Income = 2000). [9 marks]
b. Explain what is meant by R². Comment on the R² of the above regression model. [4 marks]
c. Explain the relationships between all the independent variables and the dependent variable. Do they make sense? [7 marks]

[TOTAL: 20 MARKS]
Question 5

Consider public policy aimed at smoking.

a. The government commissioned a research firm, SuperEconConsulting to conduct a study on the market demand for cigarettes in Malaysia. The firm reported that the price elasticity of demand for cigarettes in Malaysia is 1.5. As an economist, do you have any problem with the finding? Discuss.

[4 marks]

b. Another firm PandaiEkonConsulting conducted a similar study and reported that the price elasticity of demand for cigarettes is about 0.4. If a pack of cigarettes costs $2 and the government wants to reduce smoking by 20 percent, by how much should it increase the price?

[4 marks]

c. If the government permanently increases the price of cigarettes, will the policy have a larger effect on smoking 1 year from now or 5 years from now? Discuss.

[3 marks]

d. PandaiEkonConsulting also found that teenagers have a higher price elasticity than adults. Why might this be true?

[3 marks]

e. Outline and discuss the appropriate economic policies that can be implemented to reduce smoking.

[6 marks]

[TOTAL: 20 MARKS]