

Mock Examination Paper June Term 2023

Programme: BA Business Management

Module: Management Economics Level 5

Module code: LCBB 5008

Contribution to Overall Module Assessment (%): 50%

Module Leader: Dr. Taye Timothy Osadiya

Internal Verifier:

Examination Duration: 3 Hours

Examination Date & Time: To be announced by the assessment office

Please refer to the assessments schedule published on Students' Hall in Moodle Return date of provisional marks & written feedback: After the Exam Board.

*You must attempt all the question

Managerial Economics Examination (Level 5)

June Term 2023

Instructions

- Use black ink or ball-point pen.
- Fill in the boxes at the top of this page with your name, and student number.
- There are three sections in this question paper. Answer all questions from Section A, Section B and Section C.
- Answer all the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for each question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Section A (25 marks)

1 Statement 1: Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

(a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

(b) Briefly explain with a relevant example one way in which a command economy operates as compared with a free market economy (4)

(Total for Question 1 = 5 marks)

2. In February 2016, the Daily Mail newspaper increased its price from 60p to 65p. By August 2016, its sales had fallen by 5.41%.

(a) Ceteris paribus, calculate the price elasticity of demand for the Daily Mail newspaper over this period. You are advised to show your working.

(2)

(b) Which **one** of the following is most likely to be a determinant of price elasticity of demand for the Daily Mail newspaper?

(1)

- ☐ A Availability of rival newspapers
- ☐ B Change in population size
- ☐ C Decrease in the cost of producing the Daily Mail newspaper
- ☐ D Expected rise in the price of the Daily Mail newspaper

(c) Briefly explain ONE WAY in which division of labour can be used by a firm such as the Daily Mail (2)

(Total for Question 2 = 5 marks)

3 In the UK charges for dental treatment vary. For example, the following charges can be made for a tooth filling:

- National Health Service (NHS) dental treatment £50.50
- Private dental treatment £95–£700

A dentist can choose to offer NHS treatment, private treatment or both.

(a) Using the data above, which **one** of the following is a function of the price mechanism in the market for private dental care?

(1)

- ☐ A Acting as a signal to dentists when deciding whether to provide private dental treatment
- ☐ B Eliminating a shortage of private dentists by allowing the price of private treatment to fall
- ☐ C Encouraging government intervention to set dental care targets
- ☐ D Incentivising private dentists to offer only NHS treatment

(b) Explain **one** possible reason why the state provides NHS dental treatment? (2)

(c) Using the pricing data provided, why might there be an oversupply of dentists providing private dental treatment? (2)

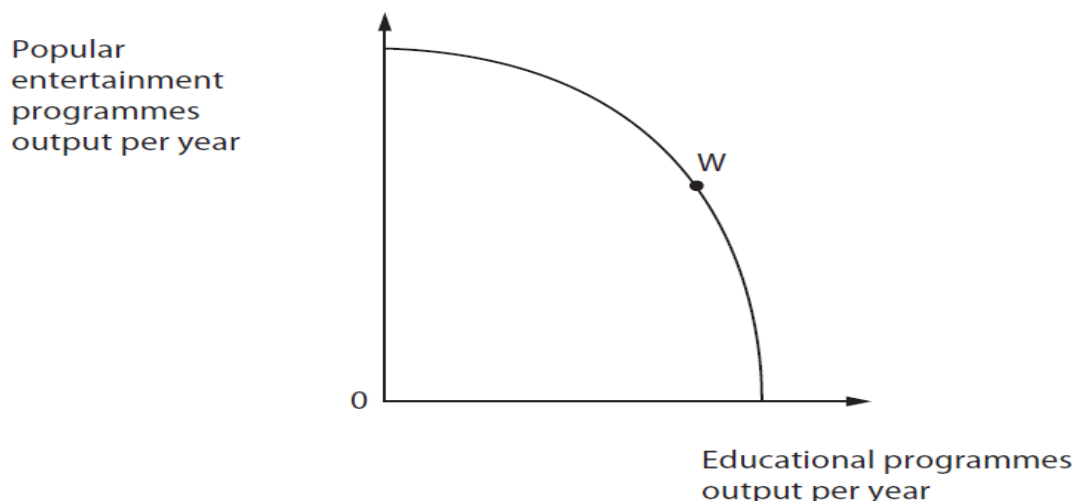
(Total for Question 3 = 5 marks)

4. The BBC is a TV broadcaster, financed through an annual licence fee of £157.50. Anisa watches BBC programmes for TV roughly 500 hours a year. She values her TV watching time at £1 per hour

(a) Calculate Anisa's consumer surplus from watching BBC TV (2)

(b) The diagram shows the production possibility frontier for the BBC. Assuming the BBC is at point W, annotate the diagram to show the opportunity cost of providing more educational programmes.

(2)



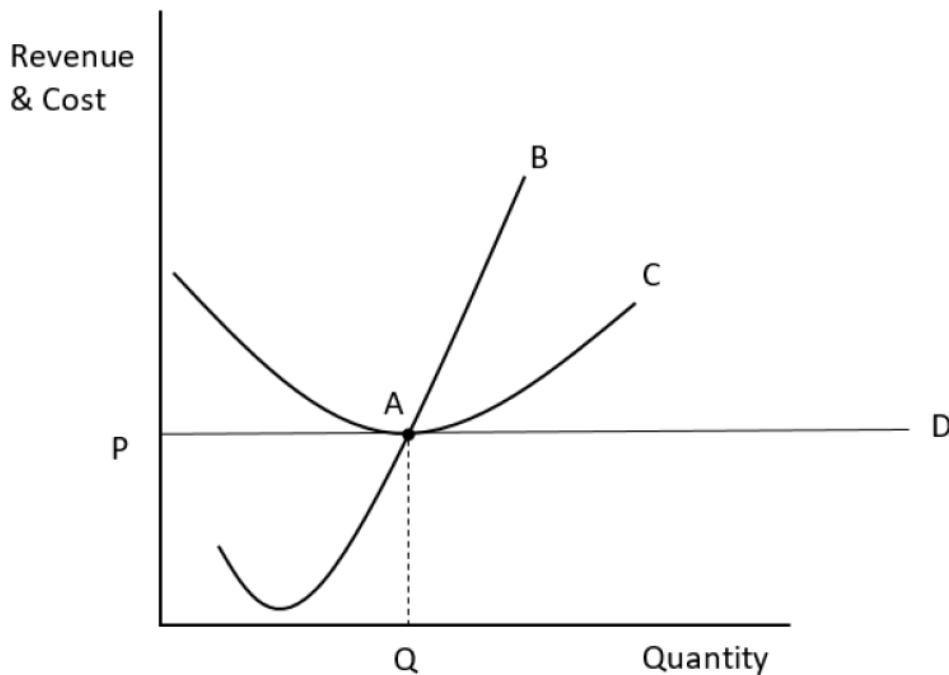
(c) Which of these best illustrates consumer rationality in the TV market? (1)

- A The government tries to balance the wishes of consumers against the wishes of taxpayers who have to fund the TV licence
- B Viewers try to make their viewing maximise their utility
- C The BBC tries to produce programmes in a cost-efficient way
- D The BBC tries to supplement their income from the TV licence by selling programmes such as Dr Who overseas

(Total for Question 4 = 5 marks)

5.

The diagram below shows the revenue and cost curves of a profit maximising, perfectly competitive firm in long-run equilibrium producing at output Q.



(a) The **one** true statement relating to the revenue and cost curves of the firm is that:

(1)

- ☐ A A represents the point at which its marginal revenue = 0
- ☐ B B represents its average total cost curve
- ☐ C C represents its marginal cost curve
- ☐ D D represents its average revenue curve

The table below shows the average fixed cost, variable cost, total cost and marginal revenue, at different levels of output, of a profit maximising firm operating under conditions of perfect competition in the short run.

Output	Average fixed cost (£)	Average variable cost (£)	Average total cost (£)	Price = Marginal revenue (£)
0				
1	200	180	380	260
2	100	170	270	260
3	66	160	226	260
4	50	150	200	260
5	40	148	188	260

(b) Calculate the profit made by this firm at an output level of 4 units.

(2)

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(c) The firm in this market is a small farm that produces wheat. For THIS FIRM, give an example of (2)

- i. A fixed cost _____
- ii. A variable cost _____

(Total for Question 5 = 5 marks)

Section B (25 marks)

Q1 Marginal Average and Total Costs

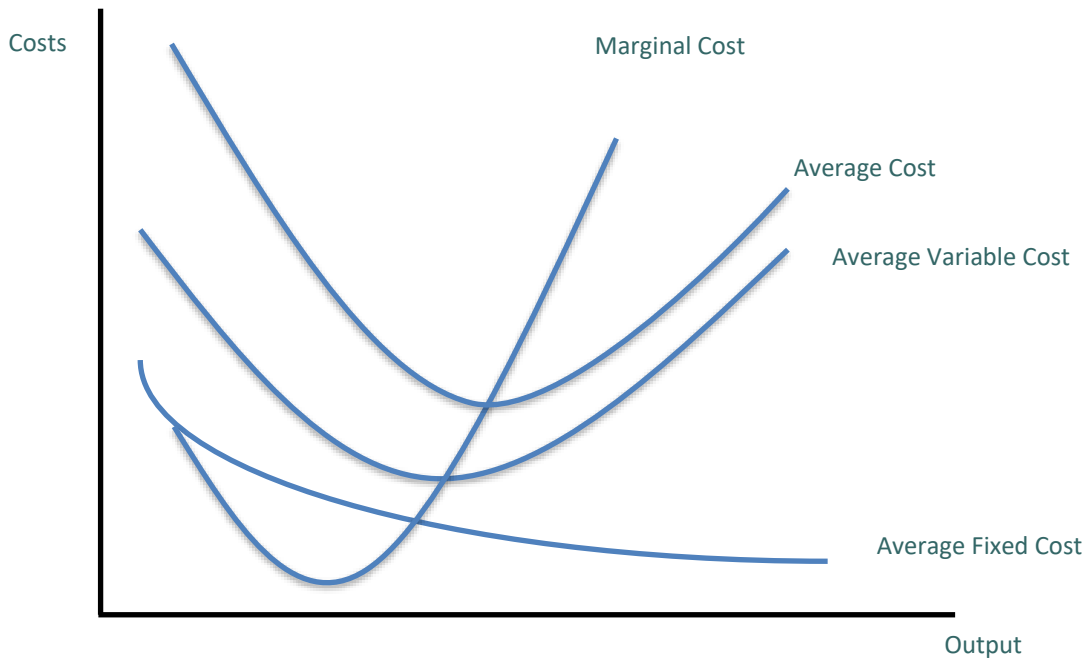
Complete the following table:

Sales	Fixed Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Total Variable Cost	Marginal Cost
0	100.0		0			
						50.0
1	100.0	100.0		150.0	50.0	
2	100.0			90.0		
3	100.0			68.3		
4	100.0			58.0		
						98.0
5	100.0			66.0		
6	100.0			73.7	34.2	

- (a) Which figures suggest that this is the short-run?
- (b) Sketch the Marginal Cost and Average Total Cost curves and explain the relationship between them.

Section C (50 Marks)

Q1. This graph shows the costs of a business making furniture (25 marks)



Make two copies of the graph above and amend them to show

- (a) An increase in factory rent
 - (b) An increase in the cost of the wood used in manufacturing the furniture
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Q2. Theory of the firm: The model of perfect competition (25 marks)

In order to understand perfect competition – we can prove that = **in a firm operating under conditions of perfect competition Price, AR and MR are the same thing**

Carry out activity on Timothy's Taxis:

The price of a taxi ride is £6 (price taker)

(a) Calculate TR, AR, MR at output levels (hires) of between 10 taxis per day to 60 taxis per day

Hires per day	10	20	30	40	50	60
Price/ fare	£6					
TR						
AR						
MR						