Suggestive solutions guide to past exam papers assignment

This is a closed book exam. Examination. Candidates may bring a calculator to the 2. This paper covers 70% of marks for the total subject: ; ; Marks for assignments vomited during the semester: Marks for this paper: 3. This paper consists of two sections, Section A and Section B ; ; Section A is worth 60% of the total marks in this paper Section B is worth 40% of the total marks in this paper. 4. Section A consists Of six (6) short answer questions. Students are to answer only FIVE (5) of these questions.

All questions in Section A carry equal marks. 5. Section a consists Of three (3) essay type questions. Students are to answer TWO (2) of these questions. All questions in Section B carry' equal marks. SECTION A This section consists of 6 questions. Students are to answer 5 of the 6 questions. Where possible, the use to graphs to support your answers is greatly encouraged, All questions carry equal marks. L. Imagine there is a monopoly firm that is able to practice perfect price discrimination (first-degree price discrimination).

This means the monopoly firm is able to charge each customer its maximum valuation for each of the firm's products. From a welfare (consumer and producer) perspective, would society as a whole be better off if the firm was a single-price monopoly instead? Graph must show monopoly but the MR. curve equals the demand curve. Firm extracts entire surplus area as producer surplus. Consumer has zero surplus. There is no deadweight loss for the first-degree price discriminator since it produces where MS= D. What is the definition of economic efficiency?

Is a perfectly competitive market considered efficient? What are the market forces that ensure a perfectly competitive market remains at equilibrium? Efficiency defined as the sum of surplus. Okay to show that efficiency is where MS= MBA on a graph or similarly to say something along the lines that that the lowest cost producer and the highest valuing customer stay in the market, PC efficient because MS= MBA(D) and because earplugs is maximized (the appropriate graph is the market and not the graph of the firm.

For the third part, simply have to say that surplus forces prices down because sellers are competing with each other to get rid to their goods, and similarly, shortage forces price up because consumers are competing with each other to buy the limited goods. It is okay to also say that freedom of entry and exit and close substitutes allow firms to quickly respond to changes in market conditions Consider the production schedules for two fictional countries, Wing and ATA Both countries can only produce two types of goods, Leeches and Teacups. The rows a o e depict the possible combinations of these two goods that each country can produce.

Wing Number of Number of Leeches Teacups 0 12 2 ATA Number Leeches Of Number Teacups O MAYHEM Economics for Managers, Exam, E: 2010 bucked 36912 9630 3210 2468 Imagine initially that the two countries are not trading and that they are each producing at point ' c' and keeping all their produce for themselves. DO you think the two nations can benefit from specialization and trade? Explain your answer using the concept Of comparative advantage and opportunity costs. First, identify the opportunity

cost for each country in each good, and then say which entry has a comparative advantage in Which good.

Note if both countries fully specialize at point e there will be less teacups in the market than prior to trade. Note that Wing at point d and ATA at point e in fact guarantees a gain from trade. Drawing and recognizing the APP correctly also counts. 4. Using the appropriate diagrams, detail the impact on the equilibrium exchange rate and quantity of the Australian Dollar when there is: a) An increase in the Australian interest rate; b) A decrease in the Australian demand for imports; c) Expectations that the Australian Dollar is going to appreciate in the future. Emend increases and supply drops.

Make sure they do not conclude anything about changes in quantity as that is ambiguous but they must say there is a depreciation, supply drops. Demand increases and supply drops also the same as (a). Imagine that Australia is an importer of petroleum. Using the appropriate diagram, depict the deadweight loss associated with a tariff imposed on the market for petroleum, Why is it considered a deadweight loss? Who bears this loss? Again, identify CSS, AS and deadweight loss before and after the tariff. It is a deadweight loss because someone visas enjoying the surplus before the change.

Less consumers are enjoying the good and inefficient producers are producing the good. The loss is borne by consumers. 6. (a) Why is a firm's average total costs curve normally U' shaped? Explain using the help of the marginal cost curve and average fixed cost curve. MAYHEM Economics for Managers, Exam, 2010 (b) Where does the marginal cost curve intersect the

average total cost curve? Why is this so? (a) Initially fixed costs have a stronger effect because it is being spread amongst a few goods only, whereas eventually as it is spread amongst multiple goods, an additional good makes little difference.

Eventually the upward loping MS curve takes over. This is because to diminishing returns (adding a variable input with one fixed). (b) Also Explain MS curve intersects AC curve at the minimum (Please look at previous exam paper solution hints in particular TO, 2009 SQ of Section A SECTION B This section consists of 3 essay type questions, Students are to answer 2 of the 3 questions. Where possible, the use of graphs to support your answers is greatly encouraged All questions carry equal marks. 1.

Using the AD/AS model, explain the effect of: (a) An expansionary monetary policy beginning from an equilibrium above fulfillment (b) An increase n net exports beginning from an equilibrium below fulfillment (c) An increase in the price of oil beginning from an equilibrium at fulfillment (a) AD shifts rightward (b) AD shifts rightward (c) ASS shifts leftward (Keynesian will require government intervention for LAIR equilibrium). 2. Imagine that the market for Teacups is perfectly competitive and that there are numerous firms in the market. A) HOW Will a profit-maximizing firm in the market for Teacups determine its output level? (b) If, after determining its profit-maximizing output level, the firm finds that it is making an economic loss, what should it do in the short-run? How will this behavior change in the long-run? (c) Now imagine instead that after determining its profit-maximizing output level, the firm finds that it is making an economic profit. Will this

change in the long-run? Using graphs show what happens in the long-run at both the firm level, and the entire market for Teacups.

Anus: (a) MS= MR. (b) shutdown if p 10) and (50> 15). R-Rutherford, this payoff is not the first best outcome since (b) Will there be a difference in the equilibrium if the game is repeatedly? If the game is repeatedly finite game (each player knows when the game will end) then there will be no difference i. . EN payoff will be still (25, 251 However, if the game is infinitely repeated game (no player knows when the game will end) then it depends on how patience each player is to co-operate to achieve the first best outcome! MAYHEM Economics for Managers, Exam, T 2, 2010 (c) Are the firms likely to gain from collusion? Answer: It depends on the degree of patience of each player, if the players are not that patience then EN (25, 25) Will sustain. (d) Discuss how both firms may profit from price discrimination, even if they choose not to expand. Answer: Price discrimination may lead to an outcome when an individual rim can grab the consumer surplus hence the profit of each firm may increase. 3. With use of appropriate diagrams, explain why governments may prefer a tariff to a subsidy as a barrier to trade.