

Economics (MBA)
Midterm - 2016 (60 min.)

Please note:

- At first please check the exam paper: are there 6 pages / all pages well readable?
- Please use the boxes for your answers, do not use own paper. Keep the exam stapled.
- Your calculations have to be shown. The complete solution method must be documented!
- You can achieve **60 points** – in 60 minutes! => one point is approximately worth one minute; please consider the indicated scores. The tasks are formulated that way that usually short answers are required. Therefore do not spend too much time with "inferior" tasks!
- Permitted Pens, calculator (no word processing function), paper dictionaries German/English
- Please do not use a pencil (except in diagrams) nor red pens
- Mobile Phones have to be switched off!

Good Luck !

Name:																			
First Name:																			
MatrikelNo:																			

Please do not enter anything below here:

<i>No. / Points:</i>					
1.	(13)				
2.	(11)				
3.	(14)				
4.	(14)				
5.	(8)				
Σ (Economics)	(60)	=	%	

Mark (partial mark Economics)

Date:

Signature:

1 Markets, Efficiency and Economic concepts

[13 points]

1.1 Define the concepts "**incentives**" and "**marginal**"; describe their economic relevance.

[3 pt]

1.2 Which types of **market failure** do you know? Name at least three and for each indicate the measure the government should take against it.

[6 pt]

1.3 In which way is the **Allocation target** addressed in the German economic system?

[4 pt]

(13)

2 Theoretical Approaches and Economics Systems

[11 points]

- 2.1 To which theory belongs the metaphor of "the Invisible Hand of the Marketplace" (Invented by whom / approximately when)? Describe the idea in your own words.

[3 pt]

- 2.2 Describe the way market economies work using this concept (Invisible Hand).
What do we learn from this for economic policy?

[4 pt]

- 2.3 Compare a Market- and a Command-Economy from point of view of:
- | | |
|--|--|
| (a) the basic approach | (c) the necessary political system |
| (b) the coordination system of the economy | (d) number and types of plans in the economy |

[4 pt]

(11)

3 A cigarette dealer intends to increase his revenues. He has fixed costs of 10 000 and variable costs of 2.00 per package. Currently 20 000 packages are sold at a price of 5.00 Euro. Market research shows that the demand would be 24 000 at a price of 4.50 Euro (or 16 000 packages at a price of 5.50 Euro). [14 points]

a) What is the **price elasticity of demand** (compute the **value**)?

- Is demand elastic or inelastic – why?

- Is this good “normal” – why?

[4 pt]

b) Do you recommend an increase or a decrease of prices? Explain why. Compute the TR before and after the price change.

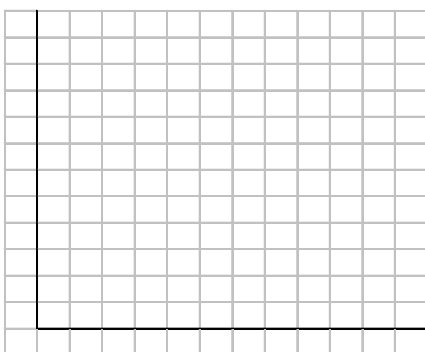
[3 points]

c) Compute the profit before and after the change you recommended in b). Is increasing the revenue a good strategy from point of view of profit?

[4 points]

d) Sketch a typical demand curve, show the elastic and inelastic parts (label everything clearly!) and explain briefly

[3 points]



(14)

4 Market Structures and Market outcomes

[14 points]

4.1 In a **perfect competition market** you observe the following data:

price	demand	supply
0	12000	0
5	6000	5000
10	0	10000

4.2 Derive the demand- and the supply-function.

[2 points]

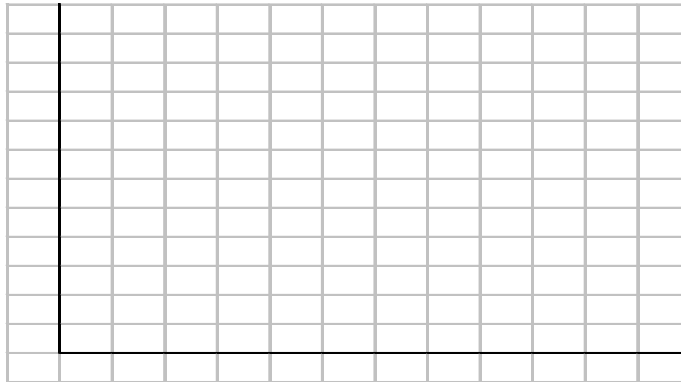
4.3 Compute the market equilibrium (p^* and q^*).

[3 points]

4.4 Draw these functions in a graph. Show the market equilibrium.

(Make sure to choose the appropriate scale for both axes - and don't forget to label them!)

[3 points]



4.5 Sometimes governments fix prices (minimum or maximum price). What are possible reasons for such measures? Explain.

[3 points]

4.6 Assume the price would be fixed at 7. How do we call this situation? Explain

[3 points]

(14)

- 5 Choose a current economic issue (in Germany, Europe, ...). Briefly describe the topic / problem in relation to one of the economics topics / principles we discussed. [8 points]

(8)

*** This question is worth 8 points = 8 minutes!
Please make sure that you don't spend too much time on this task ⇒ describe briefly! ***