HOCHSCHULE BREMEN
UNIVERSITY OF APPLIED SCIENCES

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School of International Business

Summerterm / WS 2008

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Economics (MBA)

Saturday, 25 October 2008   (90 min.)

Please note:

- At first please check the exam paper: are there 8 pages / all pages well readable?

- Please use the boxes for your answers, do not use own paper. Keep the exam stapled.

- Your calculations should be shown. The <u>complete solution method</u> must be traceable!

- You can achieve **90 points** – in 90 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:																	
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Please do not enter anything below here:

No. / Points:	
1.	(12)
2.	(12)
3.	(13)
4.	(13)
5.	(24)
6.	(16)
Σ (Economics)	(90)

Mark (partial mark Economics)
Date:
Signature:

1   **Objectives** of Economic Policy   [12 points]

1.1   What is the Principal objective of any economy? Explain/define this concept in your own word
      (not the definition used in class).   [2 pt]

1.2   Which are the three most important (sub-) targets? Explain/define this concept in your own word
      (not the verbatim definition used in class).   [4 pt]

1.3   One of these (sub-) targets is part of an important economic law in Germany. Describe this law
      and its four "magic" components (why magic?) separately.   [6 pt]

(12)

2 Market Demand   [12 points]

2.1 Sketch a typical demand curve and describe this model in your words. Show the "law of demand" and the components of the simple ("partial") demand function (equation). [4 pt]

2.2 Describe the influences of a) prices of the good itself (both possible directions); b) prices of substitutes; c) tastes and d) income of the household. Which are exogenous, which are endogenous factors and how do these influence the demand function? [4 pt]

2.3 Describe the concept of elasticity. Why do we measure elasticities / what do we learn from point of view of business decisions? (It's up to you whether you use verbal, graphical or formal descriptions. The basic way to compute an elasticity should be explained) [4 pt]

(12)

3 A cigarette dealer intends to increase revenues. He has fixed costs of 3 000 and variable costs of 3.50 per package. Currently 30 000 packages are sold at a price of 5.00 Euro. Market research shows that the demand would be 31 500 at a price of 4.00 Euro and 28 500 packages at a price of 6.00 Euro. [13 points]

a) What is the price elasticity of demand? [3 points]

b) Is demand elastic or inelastic? Is this realistic from your point of view? [2 points]

b) How do we call a good like this? What is the opposite case? [2 points]

d) The dealer asks for your advice. He wants to increase his revenue. Do you recommend an increase or a decrease of prices? Explain your recommendation theoretically (not using the numbers as an explanation). [3 points]

d) Calculate the profit for all three situations. Is your advice still valid from this viewpoint? [3 p]

(13)

4 Basic Theories / Economic Schools [13 points]

4.1 Describe the basic ideas of the theory founded by an important theorist in 1776 and described in his book "An Inquiry into the Nature and Causes of the Wealth of Nations". Especially discuss the mechanism and the implications of **free markets** and the connected theories. [7 pt]

4.2 **Explain** the statement "In some situations the government can improve market outcomes". Which are the situations where this is true from a theoretical point of view? [6 pt]

(13)

5 A firm producing exclusive handbags is a **monopolist** in its market segment. It faces the following situation: (prices in 1 000 $ but just use the numbers below)   [24 Points]

$$AR: p = 4\,000 - 80\,q \qquad \text{Cost function: } TC = 4000 + 20\,q^2$$

a) Show this situation in a diagram:

→ Average Return AR, → marginal Costs MC, → marginal return MR and → the Cournot point. [4 p]

(Remember to draw exactly and also remember to correctly label the axes).
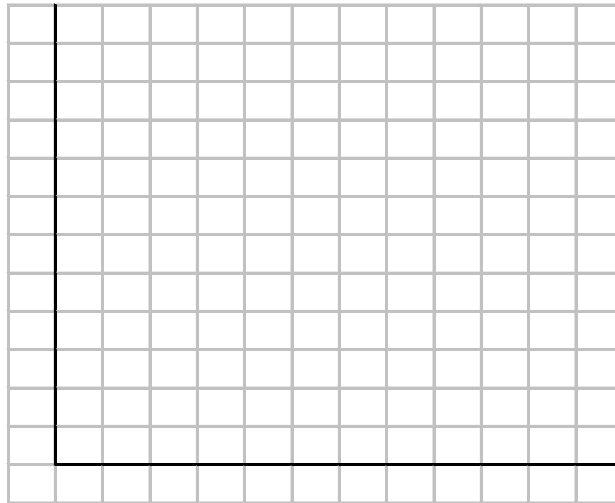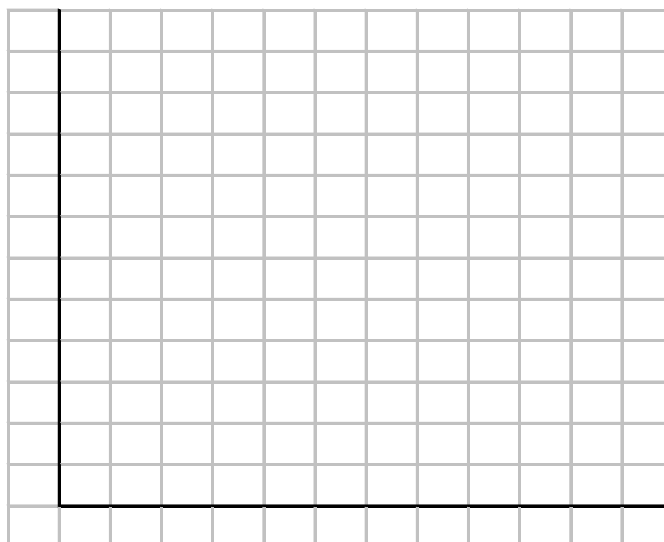
b) Calculate the optimal profit   [3 Points]

c) Show in the following graph what the situation would look like if this was a perfectly competitive market. (Remember to draw exactly and also remember to correctly label the axes).   [5 Points]

d) Calculate the equilibrium and profit in a perfectly competitive market. [4 Points]

e) Describe the different strategies of monopolist and firms in a perfectly competitive market. Describe the (decision) processes in both cases. [4 Points]

f) Compare the welfare (measured in consumers and producers surplus) in monopoly and in Perfect Competition. Interpret the result in your own words. [4 Points]

(24)

## 6 **Macroeconomic** Concepts   (16 Points)

6.1   What is the difference between demand-pull and cost-push inflation? Describe in your own
      words. It may help to use a graph, but is not required.   (5 P)

6.2   The inflation forecast for next year is 3 per cent. Workers are asking for a 5 percent pay rise.
      Should the firm agree to the 5 percent rise?   (3 P)

6.3   Fill the empty boxes in the following circular flow model. Explain the concepts and the basic re-
      sult of the model. Why are there two circles?   (4 P)

Figure 9.3 The circular flow of income

Households   Firms
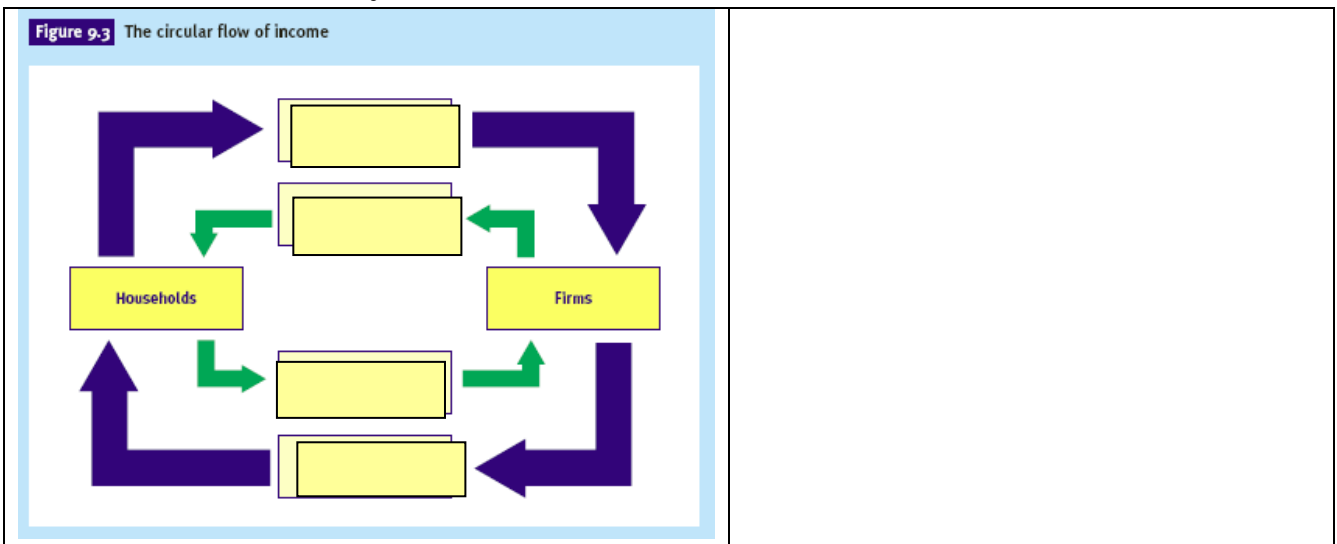
6.4   Describe at least two different approaches to compute GDP. What is the difference between
      these approaches? (Your don't have to reproduce a definition but explain the concepts). (4 P)

(16)