

Economics - part I - Microeconomics (AWS)
2nd February 2013 (45 min.)

Please note:

- For most of you, the Economics assessment is ONE EXAM of 90 minutes! The two parts are only relevant for the students of earlier semesters. For most of you, there will be one mark based on the percentage of the 90 points in 7 tasks - achievable in 90 minutes. There will be no marks for the parts, you cannot pass one single part, only the exam as a whole!
- At first please check the exam paper: are there 5 pages / all pages well readable?
- Please only work in the exam paper; use the boxes for your answers. Do not use own paper.
- Your calculations have to be shown. The complete solution (calculation) must be traceable!
- They can achieve **45 points** – in 45 minutes! => one minute is approximately worth one point; 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 are: Pens, ruler, calculator (without word processing function), dictionary English-German / German-English (*resp. your home language if it is not German* – paper - no electronic translators).
- Please do not use a pencil (except in diagrams) nor red pens.
- Mobile Phones have to be switched off!

Good Luck !

This is my ... attempt to sit this exam ↓

Family Name:		1.	
First (given) Name:		2.	
Matrikel / ID-No:		3.	

Age:	Course: AWS	Semester:	Gender	Apprenticeship (y/n) (=Lehre / Berufsausbildung)
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Please do **not** enter anything below here:

No. / Points:	
1.	(8)
2.	(12)
3.	(15)
4.	(10)
Σ	(45)

Mark
Date:
Signature:

1 The invisible hand

[8 points]

1.1 Who invented the metaphor of the “The Invisible Hand of the Marketplace” / approximately when?

(A metaphor (German: Metapher) is a figurative way to describe something)

[2 pt]

1.2 Describe the meaning of this metaphor. What do we learn from it for economic analysis?

[6 pt]

(8)

2 Objectives of Economic Policy

[12 points]

2.1 What is the Principal objective of any economy? Explain/define this concept briefly.

[3 pt]

2.2 Which (sub-) targets have to be taken into account? Name and discuss these in the context of efficiency and equity.

[9 pt]

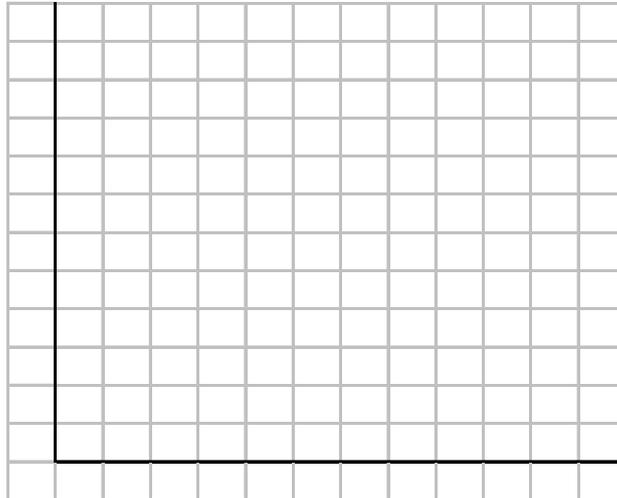
(12)

3 A firm producing exclusive watches – being **monopolist** in its market segment - faces the following situation: [15 Points]

AR: $p = 1000 - 5q$ Cost function: $TC = 2000 + 5q^2$

a) Show this situation in a diagram:

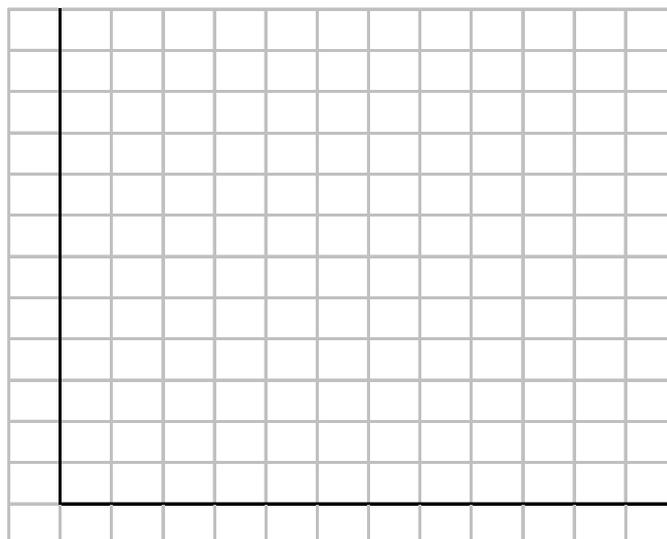
→ Average Return AR, → marginal Costs MC, → marginal return MR and → the Cournot point. [4 p]
 (Remember to draw exactly and also remember to correctly label the axes).



b) Calculate the optimal profit of the monopolist.

[4 Points]

c) Compare the welfare (measured in consumers and producers surplus) in monopoly and in Perfect Competition graphically. (Remember to draw exactly and also remember to correctly label the axes). [4 Points]



e) Interpret the result in your own words.

[3 Points]

(15)

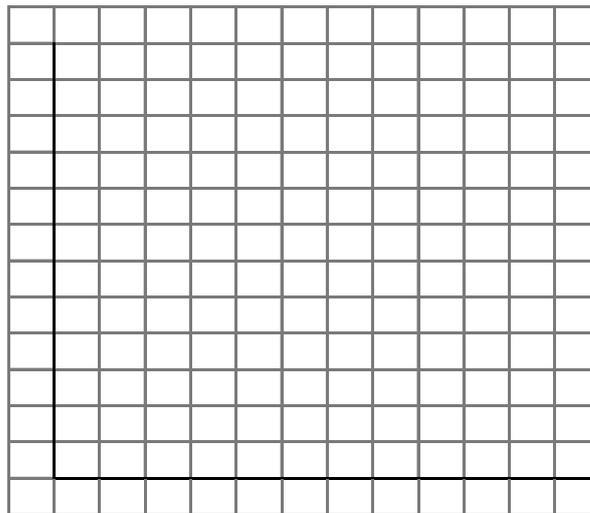
4 A cigarette dealer intends to increase revenues. There are fixed costs of 10 000 and variable costs of 4.00 per package. Currently 20 000 packages are sold at a price of 6.00 Euro. Market research shows that the demand would be 24 000 at a price of 5.40 Euro and 16 000 packages at a price of 6.60 Euro. [10 points]

a) What is the price elasticity of demand? Is demand elastic or inelastic? [2 points]

b) Do you recommend an increase or a decrease of prices? Explain why. [2 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? [3 points]

d) Sketch a typical demand curve and show the elastic and inelastic parts (label clearly!) [2 points]



e) Explain your answer in d) for normal demand functions in your own words. [1 point]

(10)