HSB
Hochschule Bremen
City University of Applied Sciences

Prof. Dr. Peter Schmidt

S¦B SCHOOL OF INTERNATIONAL BUSINESS

Summer term 2018

www.schmidt-bremen.de

Economics I Microeconomics (BIM 2)

Final test – Thursday, 25 June 2018
(30 min. test as part of learning portfolio)

Please note:

- At first please check the exam paper: are there 4 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 should be shown. The complete solution (calculation) must be traceable!

- You can achieve 30 points (=100%) in 30 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 on "inferior" tasks!

- Permitted are: Pens, ruler, calculator (without word processing function), paper dictionary English-German / German-English (no electronic translators).

- Please do not use a pencil (except in diagrams) nor red pens!

- **Mobile Phones and other electronic devices have to be switched off!**

Good Luck !

Name:												
First Name:												
MatrikelNo:												

*Please do **not** enter anything below here:*

No. / Points:	
1	(10 +)
2	(10)
3	(10 +)
Σ	(30)

Mark
Date:
Signature of lecturer

1 MC Questions

1. Producer surplus is
    A) the difference between the maximum a person is willing to pay and current market price.
    B) the difference between current market price and full costs of production for the firm.
    C) the difference between willingness to sell and full costs of productions for the firm.
    D) current market price.

2. If the most someone is willing to pay for ticket to see their favorite team is $120 and the market price of the ticket is $45, then this buyer will get consumer surplus of
    A) 1 ticket.
    B) $45.
    C) $75.
    D) $120.

3. In the long run, a firm
    A) has only one fixed factor of production.
    B) can vary all factors of production.
    C) can exit an industry, and all of its factors of production are variable.
    D) both B and C are correct.

4. The ABC Computer Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is -2.5, the company must
    A) increase price by 2.0%.
    B) decrease price by 2.0%.
    C) increase price by 0.5%.
    D) decrease price by 0.5%.

5. Perfectly competitive firms must make all of the following decisions EXCEPT
    A) how much output to supply.
    B) which production technology to use.
    C) how much of each input to demand.
    D) what price to charge for its output.

6. Total revenue minus total cost is equal to
    A) the rate of return.
    B) marginal revenue.
    C) profit.
    D) net cost.

7. The main decision for a profit maximizing perfectly competitive firm is not what _____ but what _____.
    A) level of output to produce; price to charge
    B) price to charge; level of output to produce
    C) level of output to produce; total revenue to achieve
    D) price to charge; total cost to achieve

8. Wheat is produced in a PC market. Market demand for wheat decreases. This will cause the individual wheat farmer's marginal revenue to _____ and the equilibrium quantity to _____.
    A) increase; increase
    B) increase; decrease
    C) decrease; increase
    D) decrease; decrease

9. In a monopoly, the market demand curve becomes
    A) the average revenue function.
    B) the summation of all the individual firm's cost curves.
    C) undefined.
   D) the marginal cost curve above minimum average variable cost.

(10 + 3,5 Bonus)

2 A firm producing Smart Watches – being **monopolist** in its market segment - faces the following situation: *[10 Points]*

AR: p = 500 – 5 q   Cost function: TC = 100 + 5 q²

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).
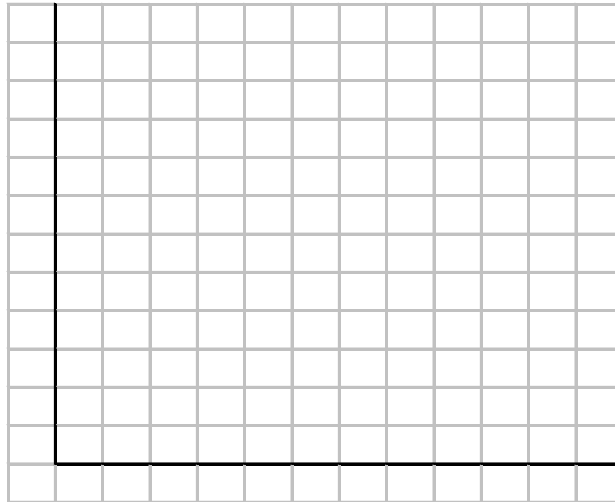
b) Calculate TR, TC and the optimal profit of the monopolistic firm.   *[3 Points]*

c) Compare the welfare (measured in consumers and producers surplus) in monopoly and in Perfect Competition. (Remember to draw exactly and also remember to correctly label the axes).   *[3 Points]*
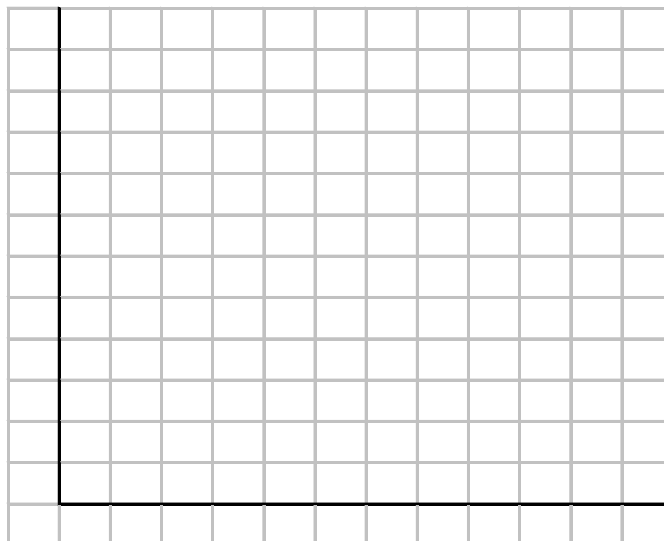
(10)

3 Basic Problems [10 points]

3.1 Why do the MC intersect the AC in their minimum? [3 pt]

3.2 What are possible barriers to entry? (explain briefly, not only bullet points) [3 pt]

3.3 How can a company identify its profit maximum?
(You might use a graph, but you don't have to. Important is that you *explain* the concepts) [4 pt]

(10)

Additional Question, not required, BONUS only = extra points:

3.4 In your opinion, is the traditional theory of profit maximizing firms appropriate to describe firms' behaviour today? (only text explanations count - just "yes" or "no" = 0 points) [3 pt]