

**Economics I** Microeconomics (BIM 2)  
**Midterm test – Monday, 30 April 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 solution (calculation) must be comprehensible!
- You can achieve these 30 points 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, smart watches, ... have to be switched off and stored away from your seat!**

**Good Luck !**

<b>Name:</b>																				
<b>First Name:</b>																				
<b>MatrikelNo:</b>																				

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

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

=  %

Mark (max 100 %)

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Date:

Signature:

# 1 MC Questions

[Check **only ONE answer** – each question if worth 1.5 points ⇒ 10 + 5 **Bonus** points ]

- i. A centrally planned economy ...
  - A) is more efficient
  - B) provides apt incentives to the people
  - C) normally results in a relatively equal distribution of goods
  - D) uses prices as indicators of relative scarcity.
- ii. Which of the following is NOT a resource as the term is used by economists?
  - A) land
  - B) buildings
  - C) labour
  - D) money
- iii. A likely effect of government policies that redistribute income and wealth from the wealthy to the poor is that those policies
  - A) enhance equality.
  - B) reduce efficiency.
  - C) reduce the reward for working hard.
  - D) All of the above are correct.
- iv. Which of the following phrases best captures the notion of efficiency?
  - A) minimum waste
  - B) absolute fairness
  - C) equal distribution
  - D) equitable outcome
- v. Which is the most accurate statement about trade?
  - A) Trade can make every nation better off.
  - B) Trade makes some nations better off and others worse off.
  - C) Trading for a good can make a nation better off only if the nation cannot produce that good itself.
  - D) Trade helps rich nations and hurts poor nations.
- vi. Which of the following can lead to market failure?
  - A) externalities
  - B) presidential elections
  - C) market power
  - D) A and C are correct.
- vii. In a market economy,
  - A) households decide which firms to work for and what to buy with their incomes.
  - B) firms decide whom to hire and what to make.
  - C) the government makes decisions about production and consumption.
  - D) Both a and b are correct.
- viii. The term "invisible hand" was coined by
  - A) John Maynard Keynes
  - B) David Ricardo.
  - C) Adam Smith.
  - D) Jean Baptiste Say.
- ix. When a price increase of 4% results in a decrease of quantity demanded of 6%, the demand is
  - A) unit elastic.
  - B) elastic.
  - C) not elastic at all.
  - D) inelastic.
- x. If the demand for sardines increases as income increases, sardines are a(n)
  - A) complementary good.
  - B) inferior good.
  - C) substitute good.
  - D) superior good.

(10 + 5 Bonus)

## 2 Basic Problems

[10 points]

2.1 To achieve the **principal objective** (which ... ?) economists distinguish between the **Allocation** and **Distribution** target. Describe these in your own words.

[5 pt]

2.2 Why do we have to study Economics and operate economically? (=what is the **basic economic problem** to be solved in every society? – *please describe, not only the name*)

[2 pt]

2.3 **Trade-offs** are important in Economics. Provide one example on a society level and one on your individual level. Explain/define the concepts you use.

[3 points]

( 10)

3 A baker intends to increase her revenues. She faces fixed costs of 10 000 and variable costs of 3.00 per package. Currently 10 000 breads are sold at a price of 5.00 Euro. Market research shows that the demand would be 10 500 at a price of 4.50 Euro.[10 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) Sketch a typical demand curve, show the elastic and inelastic parts (label everything clearly!) and explain briefly

[3 points]



(10)