HOCHSCHULE BREMEN
UNIVERSITY OF APPLIED SCIENCES

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Winterterm 2014/15

Economics I Microeconomics (EFA)

Friday, 6th February 2015 (**60** min.)

Please note:

- At first please check the exam paper: are there 7 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 **60 points** – in 60 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 have to be switched off!**

Good Luck !

Name:													
First Name:													
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Age		Course		Semester		Gender		Apprenticeship (y/n)	

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

No. / Points:	
1.	(5)
2.	(9)
3.	(6)

No. / Points:	
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1 The invisible hand [5 points]

1.1 Who invented the metaphor of the "The Invisible Hand of the Marketplace" / approximately when? [1 pt]

1.2 Describe the meaning of this metaphor. What do we learn for economic analysis? [4 pt]

(5)

2 Markets, Efficiency and Economic concepts [9 points]

2.1 Which types of **market failure** do you know? (list at least three)
Explain and give an example for each [6 pt]

2.2 Refer to the **market failures** you listed above – <u>who</u> should do something about it and <u>what</u>? [3 pt]

(9)

3 Incentives [6 points]

3.1 Describe economic “incentives” in one (or two) sentence(s). [2 pt]

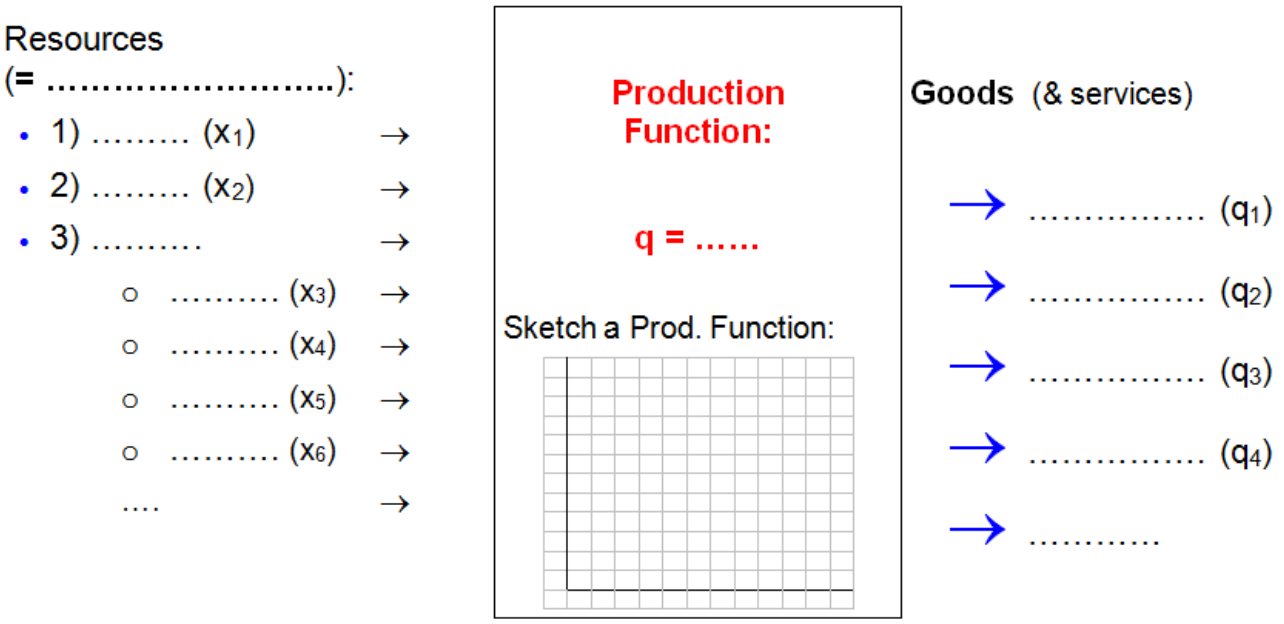
3.2 Describe “incentives” in the context of (theoretical) economic systems. Give two examples where these play(ed) an important role for the economic system/performance of countries. [4 pt]

(6)

4 The Production Process [10 points]

We described the production process in three steps (from resources to goods).

4.1 Fill the dotted lines. [hints: resources: other name for these, list the three … and some examples for the third. Prod. Function: first deliver a general formula, then sketch a typical shape of a production function.
Goods: just some examples] [5 pt]



4.2 Explain this model and its implications in your own words.
Especially sketch and explain the difference between goods and factor markets.
Explain the objective of firms in this context. [5 pt]

(10)

5 Market structures: *[10 Points]*

a) Fill the gaps in the following table *[8 Points]*

Type of market	Number of firms	Freedom of entry	Nature of product	Examples
Perfect competition				
Monopolistic competition				
Oligopoly				
Monopoly				

b) Explain the concepts of price taker and price maker (in this context) *[2 Points]*

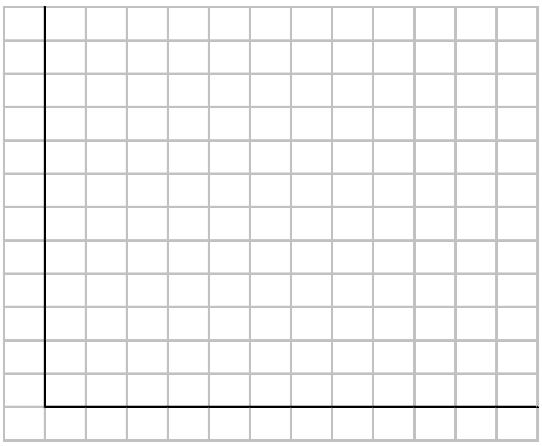
(10)

6 A ice cream parlour intends to increase its revenue. They have fixed costs of 10 000 and variable costs of 0.60 per scoop. Currently 10 000 scoops are sold at a price of 4.00 Euro. Market research shows that the demand would be 12 000 at a price of 3.80 Euro and 8 000 scoops at a price of 4.20 Euro. [10 points]

a) What is the price elasticity of demand (compute the value)? Is demand elastic or inelastic? [2 *pt*]

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

c) Sketch a typical demand curve, show the elastic and inelastic parts (label everything clearly!) and explain briefly [3 *points*]



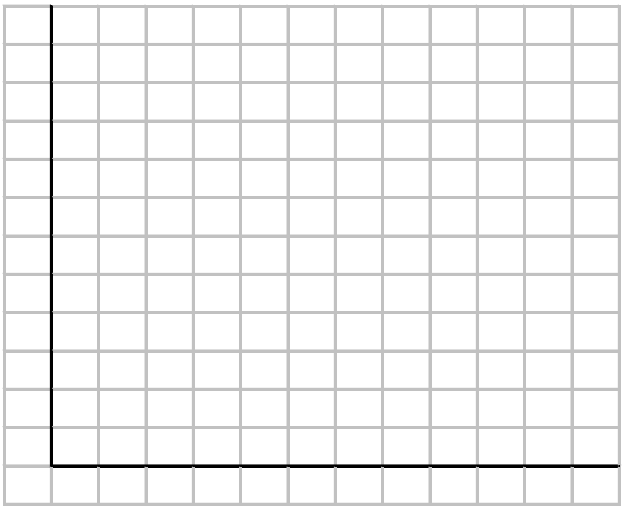
d) In the space below, give 3 examples for goods and sketch the three demand curves that might be viewed as elastic, inelastic, and perfectly inelastic (that is, sketch their distinctive shapes). Don't forget to label each box [3 *points*]

(10)

7 A firm producing exclusive motorcycles – being monopolist in its market segment - faces the following situation: *[10 Points]*

AR: $p = 50\,000 - 10\,q$ Cost function: $TC = 30\,000 + 10\,q^2$

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) Mark the producers' and consumers' surplus as well as the welfare loss in the graph. (You don't need to calculate anything). Explain briefly. *[3 Points]*

(10)