

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 !

Name:												
First Name:												
MatrikelNo:												

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

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

= %

Mark (max 100 %)

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]

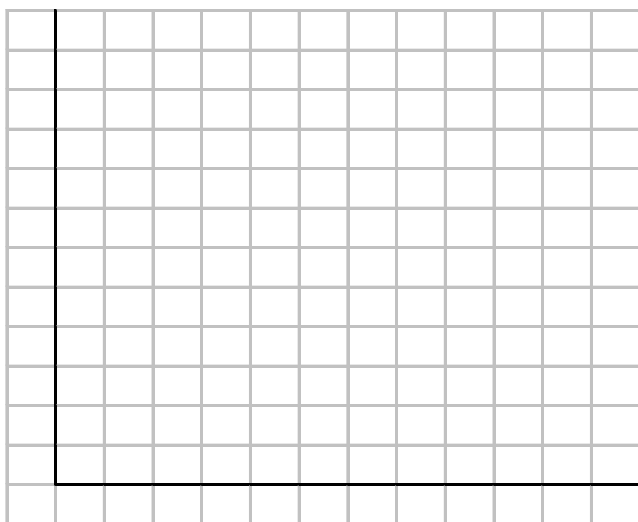
b) Do you recommend an increase or a decrease of prices? Explain why.

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)