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Short-answer and Essay Questions

The following questions must be answered **only in English**. In addition, your statements must be clear and complete. Make and use assumptions, models, and examples if necessary. Variables and notations in the models and examples should also be carefully defined.

1. (10%) Please explain the difference between the accounting profit and the economic profit.
2. (30%) The following questions are related to corporate investment issues:
 - (1) Please describe the relationship between “investment” and “capital” according to their economic meanings.
 - (2) Other things being equal, please explain and verify how a firm chooses its desired capital stock.
 - (3) Please examine the effects of **fiscal** and **monetary** policies on the corporate desired capital stock decision-making.
3. (30%) It is generally believed that both Fuel and utility price hikes were one of the most important domestic economic issues in 2012. What are your opinions on this policy implementation? Do you agree with it? Please write an essay of your opinions from both **microeconomic** and **macroeconomic** perspectives.
4. (30%) The following article, “***Taiwan central bank governor hits back at TSMC boss over exchange rate***”, was from www.wantchinatimes.com, October 27, 2012. Please carefully read the article and write a short essay of your opinions about the argument based on your comprehension of economics.

Morris Chang, chairman of Taiwan Semiconductor Manufacturing Company, has again challenged the head of Taiwan's central bank, Perng Fai-nan, over the exchange rate of New Taiwan Dollar, while the governor has hit back by saying the currency policy is intended to stabilize prices rather than benefit individual industries, reports our sister newspaper Commercial Times.

Chang, head of the world's largest independent chip maker lashed out at the central bank's exchange policy, pointing out the Taiwan dollar's continual rise against the US dollar from NT\$32.48 against the greenback at the end of 2007 to its present level of NT\$29.26. Over the same period, the exchange rate of the Korean won has depreciated from 935 won against the US dollar to 1,103 won.

The 82-year-old chairman said the exchange rate curves have put Taiwan's manufacturing at a severe disadvantage compared to its chief rival. The Taiwan dollar has appreciated 9.9% over the last five years, while the won has depreciated by 17.9%, creating a nearly 30% swing.

(Continued)

(背面仍有題目,請繼續作答)

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"If the rival keeps cutting costs, how does a company operate?" Chang was quoted by the Commercial Times as saying.

Facing the attack from one of Taiwan's captains of industry, governor Perng struck back with a four-page news statement, pointing out that inflation in South Korea is one percentage point higher than in Taiwan, which reduces the gap in forex competitiveness between the two countries.

The governor, who has been given an "A" performance rating for eight years in succession by Global Finance magazine, said the won underwent a huge depreciation in 2008 due to a balance of payment deficit which nearly led to a financial crisis, suggesting that large fluctuations in a currency's exchange rate is dangerous.

Perng also provided figures of real effective exchange rate collected by the Bank for International Settlements, which showed that the won saw a great increase after a huge decrease. The real effective exchange rate of the Taiwan dollar was nearly equal to the won's in September, which means the actual difference in export competitiveness between the two countries is small, and not massive as Chang had claimed.

Perng also said the exchange rate of the Taiwan dollar is more stable than the Korean unit. From the end of 2007, the fluctuation rate of the won reached 13.07%, compared to 3.95% for the Taiwan dollar.

The stability of a currency's exchange rate can reduce risks and is good for the development of foreign trade, Perng added.

Chang has criticized the central bank's currency policies on average once a year since 2009, pointing out that Taiwan's economy depends on exports and the government should be concerned by the impact of the exchange rate difference between Taiwan and South Korea on Taiwan's exporters.

Perng said Chang that exporters prefer the currency's value to be low, while importers want appreciation. The exchange rate cannot satisfy both at the same time, he said.

<http://www.wantchinatimes.com/news-subclass-cnt.aspx?cid=1102&MainCatID=11&id=20121027000039>