

I. Choose the BEST Answer (3 points each, 36%)

1. Producer surplus for the whole market can be thought of as
 - A total profit.
 - B variable operating profit plus factor rents.
 - C total profit minus factor rents earned by lower cost firms.
 - D total profit plus factor rents earned by lower cost firms.

2. When a product transformation curve for a firm is bowed inward, there are _____ in production.
 - A economies of scope
 - B economies of scale
 - C diseconomies of scope
 - D diseconomies of scale

3. Fixed costs are fixed with respect to changes in
 - A output.
 - B capital expenditure.
 - C wages.
 - D time.

4. Suppose that the labor market is perfectly competitive, but the output market is not. When the labor market is in equilibrium, the wage rate will:
 - A be less than the marginal revenue product of labor.
 - B equal the marginal revenue product of labor.
 - C be greater than the marginal revenue product of labor.
 - D none of the above is necessarily correct.

5. A farmer uses M units of machinery and L hours of labor to produce C tons of corn, with the following production function $C = L^{0.5}M^{0.75}$. This production function exhibits
 - A decreasing returns to scale for all output levels
 - B constant returns to scale for all output levels
 - C increasing returns to scale for all output levels
 - D no clear pattern of returns to scale

6. Assume that average product for six workers is fifteen. If the marginal product of the seventh worker is eighteen,
- A marginal product is rising.
 - B marginal product is falling.
 - C average product is rising.
 - D average product is falling.
7. Sarah consumes only strawberries and cream, and she is spending all of her income. Her marginal utility of her last dish of strawberries is 200 and her marginal utility of her last pint of cream is 200. The price of strawberries is \$1.00 per dish and the price of cream is \$2.00 per pint. To maximize her utility, Sarah should
- A buy more strawberries and less cream.
 - B buy more cream and less strawberries.
 - C not change her purchases of strawberries and cream.
 - D definitely buy no cream at her consumer equilibrium.
8. The magnitude of the slope of a budget line is equal to
- A real income.
 - B the price of one good divided by the price of the other good.
 - C income divided by the price of a good.
 - D the price of a good divided by income.
9. When the wage rate increases from \$7.50 to \$10.00 an hour, Bob chooses less work because of
- A the substitution effect.
 - B the income effect.
 - C Both of the above.
 - D Neither of the above.
10. If the cross elasticity of demand for good x with respect to the price of good y is positive, then goods x and y are
- A normal goods.
 - B inferior goods.
 - C complements.
 - D substitutes.

11. The paradox of value

- A is explained by the fact that the total utility of diamonds exceeds the total utility of water.
- B is explained by the fact that the marginal utility of diamonds exceeds the marginal utility of water.
- C is explained by the fact that the total utility of diamonds exceeds the marginal utility of water.
- D is explained by the fact that the marginal utility of diamonds exceeds the total utility of water.

12. The marketing people for AT&T believe that if they lower the price of long-distance phone calls by 5 percent, their quantity sold will increase by 15 percent. If they are correct in their belief, then

- A the demand for their service is price inelastic.
- B the total revenue from long-distance services will increase if they lower the price.
- C the demand for their service is income elastic.
- D the total revenue from long-distance services will decrease if they lower the price.

II. Consider an economy with two agents and two goods. Let the goods be labeled x and y , and the agents 1 and 2. Agent 1's initial endowment is given by the vector $(3/4, 1/4)$. Agent 2's endowment vector is given by the vector $(1/4, 3/4)$. Thus, there is a total endowment of 1 unit of x and 1 unit of y . The preference of the two agents are represented by the utility functions:

$$U(x,y)=x+2y$$

$$U(x,y)=\min\{x,y\}$$

- (a) Draw the Edgeworth box. Label the endowment point by E . (3%)
- (b) Draw the indifference curve for each agent through the endowment point (3%)
- (c) Determine the competitive equilibrium allocation. (3%)
- (d) Find the equation for the contract curve. (3%)

III. Suppose that the world inverse demand function for wool is $P = A/Q$ for some positive constant A . Suppose that 1/4 of the world's wool is produced in Australia.

- (a) If Australian wool production increases by 1% and the rest of the world holds its output constant, what will be the effect on the world price of wool? (6%)
- (b) How does the marginal revenue to Austria from an extra unit of wool related to the price of wool? (6%)

(背面仍有題目,請繼續作答)

- IV. Suppose that all workers place a value on their leisure of 75 goods per day. The production function relating output per day (Y) to the number of people working per day (N) is $Y = 500N - 0.4N^2$, and the marginal product of labor is $MPN = 500 - 0.8N$. A 25% tax is levied on wages.
- How much is output per day? (5%)
 - In terms of lost output, what is the cost of the distortion introduced by this tax? (5%)
- V. Suppose the economy is initially in long-run equilibrium. For each of the shocks listed below, explain the long-run effects on output and the price level.
- Labor supply decreases. (5%)
 - Productivity increases. (5%)
- VI. Essay Question:
- Explain the concept of Phillips curve. Is there any difference between monetarist and Keynesian view of the Phillips curve? (10%)
 - Contrast monetarist and classical views on the short-run effects of an increase in the quantity of money. (10%)