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Part I. Multiple Choice Questions (Choose the BEST answer, 70%)

1. If the number of suppliers in the microcomputer industry increases, what would we expect to happen?

    A) The number of microcomputers sold will rise.

    B) The price of microcomputers will fall.

    C) The supply curve will shift right.

    D)　Movement along the demand curve will occur.

    E)　All of the above will happen.

2. The formula for elasticity is given by

    A) $\dfrac{\Delta Q/Q}{\Delta P/P}$　　B) $(\Delta Q/\Delta P)(P/Q)$.　　C) $(P/Q)(1/slope)$.

    D) a and b.　　E) all of the above.

3. You decide to go skiing this weekend. It costs $50 for transportation, $50 for lodging, $30 for ski lift tickets and you could have earned $100 as a waiter. What is the total cost of the ski weekend? You would quit your job if they paid one penny less.

    A) $130　　B) $230　　C) $100　　D) $80

4. Which of the following are endogenous variables within the classical model?

    A) Output

    B) Employment

    C) Quantity of money

    D) The real wage

    E)　A, B, and D

5. The marginal rate of substitution is

    A) the absolute value of the slope of the indifference curve.

    B) the tradeoff between the two goods under consideration at any particular point.

    C) the total utility derived at any point.

    D) all of the above.

    E) a and b.

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6. The Kahneman-Tversky value function is
    A) risk-averse in gains, risk-seeking in losses.
    B) risk-seeking in gains, risk-averse in losses.
    C) risk-averse in gains and losses.
    D) risk-neutral in gains and losses.

7. The increased use of e-commerce has
    A) increased the demand for credit cards and money demand.
    B) decreased the demand for checkable deposits and the demand for money.
    C) not contributed to the decline in checkable deposits and money demand.
    D) None of the above
    E) All of the above

8. Two factors are affecting the domestic auto industry: (1) an increase in cheap
   Korean imports (2) an increase in the cost of materials. What can we say about
   equilibrium price and quantity?
    A) Equilibrium price will rise.
    B) Equilibrium price will fall.
    C) Equilibrium quantity will fall.
    D) Equilibrium quantity will rise.
    E) The answer cannot be determined from the information given above.

9. My income rose and the price of good Y rose also. That means that my demand
   curve for good X shifted right.
    A) This statement is always true.
    B) This statement will always be true if good y is a substitute for good x.
    C) This statement will always be true if good x is a normal good.
    D) This statement will always be true if good y is a substitute for x and x is a
       normal good.

10. When people are in financial difficulty an advisor will usually recommend
    establishing a budget for spending. One reason is that a budget will act to
    discipline behavior if people psychologically are subject to
    A) bounded rationality   B) mental accounting   C) segregated gains
    D) the halo effect.

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11. The "Lemon's" argument helps to explain why
   A) physical depreciation is the only reason for the sharp price differential
      between new and used cars.
   B) physical depreciation is an insufficient reason for the sharp price
      differential between new and used cars.
   C) used cars fail to satisfy consumer demands for transportation.
   D) new and used cars sell for more than their intrinsic value would suggest.
   E) All of the above

12. Diminishing returns begin to occur
   A) when the slope of the ray from the origin reaches a maximum.
   B) when the total product curve reaches a maximum.
   C) when the slope of the total product curve reaches a maximum.
   D) when the marginal product curve intersects the average product curve.
   E) All of the above

13. When someone optimally chooses a consumption bundle, the MRS equals
   A) the ratio of the prices of the goods.
   B) the opportunity cost of one good in terms of the other.
   C) the slope of the indifference curve.
   D) all of the above.
   E) none of the above.

14. If the nominal interest rate is 10% and the rate of inflation is 7%, what is the real
    rate of interest?
    A) 10.3%　　B) 7.0%　　C) 2.8%　　D) 3.0%

15. Which of the following statements is incorrect?
   A) A risk-averse decision maker will choose the alternative with the lowest
      variance among alternatives with identical expected utilities
   B) A risk-neutral decision maker will always choose the alternative with the
      lowest variance among alternatives with identical expected utilities
   C) A risk-loving decision maker will choose the alternative with the highest
      variance among alternatives with identical expected utilities
   D) The expected utility of a lottery is the expected value of the utility levels
      that the decision maker receives from the payoffs in the lottery

（背面仍有題目，請繼續作答）

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16. Game theory contributes to the discipline of economics because

   A) playing games hones an economist's skills

   B) modeling the prisoners' dilemma is important in understanding criminal behavior

   C) game theory allows economists to model individuals or firms whose actions are interdependent

   D) game theory shows pure profit maximization

17. In insurance markets, adverse selection often

   A) creates exchange possibilities that are beneficial to consumers and insurance companies.

   B) creates an abundance of lawsuits.

   C) brings down prices for insurance premiums.

   D) eliminates exchange possibilities that would be beneficial to both consumers and insurance companies alike.

18. A decrease in the interest rate will

   A) produce an increase in current savings.

   B) produce an increase in current consumption.

   C) produce a decrease in current savings.

   D) depend on the particular consumer's preferences.

19. Suppose for some utility function that $MU_x = 2x$ and $MU_y = 2y$

   A) This utility function will violate the assumption that preferences are complete

   B) The assumption that more is better is satisfied for both goods

   C) The indifference curves for this utility function will be straight lines with a slope of −1

   D) The indifference curves will have a diminishing marginal rate of substitution

20. Comparative advantage is based on

   A) capital costs　B) labor costs　　C)　opportunity costs

   D) dollar price.

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21. The common factors that give rise to all principal-agent problems include the

    A) unobservability of some manager-agent action

    B) presence of random disturbances in team production

    C) the greater number of agents relative to the number of principals

    D) a and b only

    E) none of the above

22. Holding all other forces constant, if raising the price of a good results in less total revenue,

    A) the demand for the good must be elastic

    B) the demand for the good must be inelastic

    C) the demand for the good must be unit elastic

    D) the demand for the good must be perfectly inelastic

23. Which of the following is not a component of aggregate demand according to Keynesian theory?

    A) Net exports

    B) Personal saving

    C) Household consumption

    D) Desired business investment demand

    E) Government purchases of goods and services

24. In the Keynesian model _____ is fixed, while in the classical model _____ is fixed.

    A) output; prices

    B) interest rates; income

    C) prices; interest rates

    D) prices; income

    E) none of the above

25. The level of an economic activity should be increased to the point where the _____ is zero.

    A) marginal cost   B) average cost

    C) net marginal cost   D) net marginal benefit

    E) none of the above

（背面仍有題目,請繼續作答）

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26. Those economists who believe that fiscal policy is more powerful than monetary policy argue that the

    A) interest rate elasticity of investment is large.

    B) interest rate elasticity of investment is small.

    C) LM curve is vertical.

    D) IS curve is horizontal.

27. The purchasing power parity hypothesis implies that an increase in inflation in one country relative to another will over a long period of time

    A) increase exports

    B) lower the value of the currency

    C) increase foreign aid

    D) reduce the competitive pressure on prices

    E) increase the speculative demand for the currency

28. In the Keynesian model, exogenous variables include

    A) income and total investment.

    B) government spending and income.

    C) planned investment and government spending.

    D) unplanned inventories and government spending.

29. According to the classical theory of labor demand, the profit-maximizing firm demands labor up to the point at which

    A) the real wage is equal to the marginal productivity of labor.

    B) the money wage paid to labor is just equal to the money value of the marginal product of labor.

    C) labor and capital costs are equal.

    D) <u>a</u> and/or <u>b</u> are correct.

30. A joint fiscal and monetary policy program to reduce inflation might include a

    A) tax cut and reduction in the required reserve ratio on demand deposits.

    B) tax cut and a sale of securities in the open market.

    C) cut in government spending and a sale of government securities in the open market.

    D) cut in government spending and a reduction in the discount rate.

    E) none of the above.

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31. Suppose that the government wants to increase income without changing the interest rate. How can they accomplish this?

    A) Increase government spending and reduce the money supply.

    B) Increase government spending and the money supply.

    C) Increase taxes and the money supply.

    D) Reduce government spending and increase the money supply.

    E) All of the above

32. Monetarists emphasize

    A) the liquidity trap but not crowding-out.

    B) crowding-out and the liquidity trap.

    C) crowding-out but not the liquidity trap.

    D) neither crowding-out nor the liquidity trap.

33. Which of the following statements is (are) correct?

    A) The central policy tenet of the new classical economics is that aggregate demand management cannot achieve stabilization of real variables.

    B) According to the new classical view, systematic monetary policy actions that change aggregate demand will not affect output and employment even in the short run.

    C) According to the classicists, systematic fiscal policy actions that change aggregate demand will not affect output and employment even in the short run.

    D) All of the above

    E) None of the above

34. Which of the following models depicts the role of money as affecting only the price level in the short run?

    A) The new classical model

    B) The Keynesian model

    C) The monetarist model

    D) The real business cycle model

    E) None of the above

35. Which of the following models argue that active stabilization policy can be beneficial?

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    A) The classicists

    B) The new classicists

    C) The monetarists

    D) The real business cycle theorists

    E) None of the above

Part II. Essay Questions (30%)

1.   (4%) Give an example, not similar to the text material, where you erroneously took sunk costs into account where it was inappropriate to do so.

2. (8%) Sketch graph (sketch graph means: do not put in numbers) a starting equilibrium point for a drug that extends the life of AIDS patients. Then please draw in a new curve labeled (w) to show what would happen if the ingredient of the drug was found to exist in sand in addition to the rare tree from which the drug is now made. Finally please describe in a sentence what happens to the price and quantity of the drug in the marketplace. Answer the quantity part by referring to what happens to both the demand and supply side of the market. Be sure to use the correct vocabulary.

3. (8%) Suppose a consumer has preferences over two goods that can be represented by the utility function $U = \min\{2X, Y\}$

    (a) Describe the shape of the indifference curves. (4%)

    (b) Describe the special properties of the $MRS_{X,Y}$. (4%)

4.   (10%) Consider the following economy:

    $M^S = 1,800$

    $M^d = 300 + 0.75Y - 300r$

    $C = .8(Y-T)$

    $I = 1,520 - 240r$

    $T = 150 + 0.25Y$

    $G = 200$

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(a) Calculate the IS and LM curves. Explain in detail the intuition behind why the IS and LM curves are sloped as they are. Provide graphs to aid your explanation. (4%)

(b) Suppose that both G and T rise by 200 to G =400 & T = 350+0.25Y Calculate what will happen to Y* and i*? Can you explain the intuition behind what is going on here? Provide a graph to support your explanation. (6%)