

Part I. True or False (30 points, 3 pts each)

1. A country adopts a fixed exchange rate system. A government official claims that the money supply will not be changed even if the foreign investments are growing, which causes foreign reserves to increase.
2. The interest rate is raised by the FED in U.S., which will make NT dollars depreciate even if the inflation rate increases at the same time in U.S..
3. Consumers will pay most of taxes levied on a product if the supply curve is more elastic than the demand curve.
4. A company produces a product which is an intermediate good for final automobiles. Since the production value of this year is higher than the previous year for this company, we could expect that GDP this year will definitely increase.
5. John and Joe have same preferences. If John has a lower income, then the marginal utility of John is higher than Joe once they are maximizing their respective utilities for most goods.
6. John has \$200,000 in his savings account in which the savings interest rate is maintained stable for 5 years. The economy goes unexpectedly from deflation to inflation. Thus, we could say John's real wealth decreased.
7. Companies A and B are going to merge. The government regulation agency suspects that this merge may reduce the competition, which creates an unfair market. The CEOs from both companies argue that there will be no reduction in competition since their products are different and the actual market situation is that the demand of company B's product increases 25% when the price of company A's product increases 10%.
8. A government official of a country argues that the price level will stay stable as usual despite that the real GDP grows under stable velocity of money and unchanged money supply.
9. One new technology is invented to increase production of automobiles and reduces the marginal product of labor. Then, the labor demand and the wage rate will decrease.
10. Companies A and B are thinking about adopting an advertising strategy. If they both advertise, each will make a profit of \$50,000. If they both decide not to advertise, each makes \$100,000. If one advertises, one who advertises will make a profit of \$120,000 and the other will makes \$20,000. If this game is repeated, then no company will advertise.

(背面仍有題目,請繼續作答)

Part II. Choose the BEST answer (40 points, 4 pts each)

1. A LCD maker produces 30,000 LCD TVs in the first quarter of 2005. By the end of the first quarter, 20,000 LCD TVs are sold out. Therefore,
 - (A) All production quantity will be counted as the first quarter GDP.
 - (B) All production quantity will be counted as the second quarter GDP once 30,000 LCD TVs are sold out in the second quarter of 2005.
 - (C) The LCD TVs will be reckoned as a change in inventory in the first quarter and will be counted as the second quarter GDP when sold out.
 - (D) The LCD TVs will be reckoned as a change in inventory in the first quarter and will be counted as the first quarter GDP.

2. Sharon, Lydia, and Ariel are willing to pay \$45, 25, 15 for a product currently sold for \$15, respectively. Then, the consumer surplus will be:
 - (A) \$40
 - (B) \$45
 - (C) \$85
 - (D) \$70

3. Which of the following statements is WRONG?
 - (A) Subsidizing research and development usually increases the economic growth of a country.
 - (B) Dynamic comparative advantage is reinforced when the new technology is spread out and widely used.
 - (C) The new growth theory predicts that an increase in the return to knowledge will increase the supply of knowledge and real interest rate.
 - (D) Neoclassical growth theory argues that the grow rates of all economies will converge.

4. There exists a consumer surplus in the LCD market. Then, we should expect that the actual price of an LCD would be
 - (A) higher than equilibrium price and quantity supplied is smaller than quantity demanded.
 - (B) higher than equilibrium price and quantity supplied is smaller than quantity demanded.
 - (C) lower than equilibrium price and quantity supplied is larger than quantity demanded.
 - (D) higher than equilibrium price and quantity supplied is larger than quantity demanded.

5. Teresa just finished her MBA degree and toured around the Europe for a month. Thus, the unemployment rate will
- (A) increase and labor-force participation rate will decrease.
 - (B) increase and labor-force participation rate will not change.
 - (C) not change and labor-force participation rate will not change.
 - (D) not change and labor-force participation rate will decrease.
6. Which of the following statements is CORRECT?
- (A) If the central bank increases the interest rate and the money supply, then inflation rate goes higher.
 - (B) If the central bank decreases the interest rate and increase the money supply, then inflation will be lower and unemployment rate will be higher.
 - (C) If the central bank increases the interest rate and the money supply, then inflation rate goes lower.
 - (D) If the central bank decreases the interest rate and increase the money supply, then inflation will be higher and unemployment rate will be lower.
7. Which of the following statements is CORRECT?
- (A) If there are learning effects in production, the total revenue will increase.
 - (B) If there are learning effects in production, the total production costs will decrease.
 - (C) If there are learning effects in production, the average production cost will decrease.
 - (D) all of above.
8. John borrowed \$100,000 from his friend Joe and told Joe that he would use the money to repay his tuition loan. However, after getting the money, John went overseas for having funs and spent all the money on entertainments.
- (A) Then, we could say that John is a principal and Joe is an agent.
 - (B) The, we could say that Joe is a principal and John is an agent.
 - (C) Then, we could say that John has a problem of moral hazard.
 - (D) The, we could say that Joe has a problem of asymmetric information.

(背面仍有題目,請繼續作答)

9. A country tried to improve the education level of her people but found no evidence of affecting the national average wage. This finding collaborate which theory of education?
- (A) The signaling theory which states that the education level only reflects a person's capability and has no significant effect on the wage.
 - (B) The human-capital theory which states that accumulation of higher education would probably have effects on the wage.
 - (C) The human-capital theory which states that the education level only reflects a person's capability and has no significant effect on the wage.
 - (D) The signaling theory which states that accumulation of higher education would probably have effects on the wage.
10. The World Trade Organization (WTO) makes efforts to lift trade barriers between countries and promotes the idea of free trade. Which of the following is WRONG about possible consequences of free trade?
- (A) Supporters of free trade argue that free trade can benefit exports and imports of a country.
 - (B) Opponents of free trade claim that free trade will make the domestic unemployment rate go higher.
 - (C) Opponents of free trade in developed countries regularly request their governments to bar overseas investments in less developed countries and argue that barring overseas investments will harm their domestic companies which compete with imports from less developed countries.
 - (D) Opponents of free trade in developed countries regularly request their governments to bar overseas investments in less developed countries and argue that barring overseas investments will benefit their domestic companies which compete with imports from less developed countries.

**Part III. Please answer the following questions with rigorous economic analysis.
(30 points)**

Recently, the rising oil price has been blamed for the potential threat of inflation, particularly for the oil-importing countries. To understand this effect of rising oil price on the economy, please use the standard economic diagram for the analysis.

1. What factors is causing rising oil prices? Is it coming from over-demand or short-of-supply of oil? Where does the over-demand or short-of-supply come from?
2. On your diagram, please show how rising oil price influence demand and supply for the economy? What will happen to the output and price level? How do changes in price and output levels depend on the elasticity of demand curve?
3. To help the economy, the central bank decides to embark on monetary easing. In your analysis, what will happen to the price and output levels for the looser monetary policy?
4. Whether rising oil prices will feed into wages and prices of other goods may depend on the cyclical position of the economy. What would happen to the price level as a result of rising oil price when there is ample capacity? Following this logic, do you think central banks of Taiwan should be cautious about the risk of inflation for the recent rising oil price, why?