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**I. Multiple Choice Questions (40%)**

1.

Suppose two neighbors share a park. One neighbor, Al, leaves trash in the park. This bothers the other neighbor, Bert. According to Coase's Theorem, one necessary condition to alleviate the externality is that

- A) Al is fined by the government.
- B) Al has the right to leave trash and Bert cannot do anything about it.
- C) Bert has the right to a clean park and Al cannot leave trash.
- D) Either Al or Bert owns the park.

2.

If a person is risk neutral, then she

- A) is indifferent about playing a fair game.
- B) will pay a premium to avoid a fair game.
- C) has a horizontal utility function.
- D) has zero marginal utility of wealth.

3.

The ability to produce a good at a lower opportunity cost than someone else is called

- A) competitive production.
- B) comparative advantage.
- C) selective advantage.
- D) absolute advantage.

4.

A key aspect of the principal-agent problem is that

- A) the principal cannot perfectly monitor the agent's actions.
- B) the principal can perfectly monitor the agent's actions.
- C) the output level does not depend on the agent's actions.
- D) the principal is always risk-averse.

5.

A monopoly will not be able to perfectly price discriminate if

- A) each consumer does not reveal her reservation price.
- B) demand is very elastic.
- C) the firm's marginal cost curve is upward sloping.
- D) All of the above.

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6.

A strategy is dominant if

- A) it yields a greater payoff than any other player receives.
- B) it yields a payoff at least as large as that from any other strategy, regardless of the actions of other players.
- C) the player cannot gain by changing strategy, assuming that no other player changes strategy.
- D) it is part of a Nash equilibrium.

7.

The lemons problem is due to

- A) asymmetric information.
- B) moral hazard.
- C) hidden actions.
- D) symmetric information.

8.

If a government wants to maximize revenues from a tax it should

- A) impose it on sellers.
- B) impose it on consumers.
- C) choose a good with a relatively elastic demand.
- D) choose a good with a relatively inelastic demand.

9.

A profit maximizing monopolist

- A) is guaranteed to lose money because of a lack of competition.
- B) is not guaranteed to make a positive profit.
- C) is guaranteed to make a positive profit, hence the desire to be a monopolist.
- D) is guaranteed to make a non-negative profit, otherwise government would step in to assist.

10.

5) If two indifference curves were to intersect at a point, this would violate the assumption of

- A) transitivity.
- B) completeness.
- C) Both A and B above.
- D) None of the above.

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11.  
Based on our understanding of the paradox of saving, we know that a reduction in the desire to save will cause
- A) an increase in equilibrium GDP.
  - B) a reduction in GDP.
  - C) an increase in the desire to invest.
  - D) no change in equilibrium GDP.
  - E) a permanent reduction in the level of saving.
12.  
Based on our understanding of the IS-LM model that takes into account dynamics, we know that a reduction in government spending will cause
- A) an immediate drop in  $Y$  and immediate increase in  $i$ .
  - B) an immediate reduction in  $i$  and no initial change in  $Y$ .
  - C) a gradual reduction in  $i$  and gradual reduction in  $Y$ .
  - D) a gradual reduction in  $i$  and an immediate reduction in  $Y$ .
13.  
Which of the following is considered out of the labor force?
- A) the unemployed
  - B) those temporarily laid off who will soon be recalled
  - C) those who worked full time, but in a family business
  - D) those individuals who have started searching for employment for the first time
  - E) none of the above
14.  
Which of the following will most likely cause a change in the natural rate of unemployment?
- A) changes in monetary policy
  - B) changes in fiscal policy
  - C) changes in expected inflation
  - D) all of the above
  - E) none of the above
15.  
An increase in the interest rate will cause
- A) a reduction in the supply of central bank money.
  - B) a reduction in the demand for currency.

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C) a reduction in the demand for reserves.

D) all of the above

E) both B and C

16.

Convergence of output per capita across countries has come from

A) a convergence of saving rates.

B) a convergence of the accumulation of capital.

C) higher technological progress from the countries that started behind.

D) all of the above

17.

In an open economy, an increase in government spending will cause

A) a reduction in domestic output.

B) a reduction in imports.

C) a reduction in net exports.

D) all of the above

E) none of the above

18.

In a fixed exchange rate regime, an increase in the price level will cause which of the following?

A) a real appreciation and a leftward shift in the aggregate demand curve

B) a real appreciation and no shift in the aggregate demand curve

C) a real depreciation and a rightward shift in the aggregate demand curve

D) a real depreciation and no shift in the aggregate demand curve

E) no change in the real exchange rate, and no change in aggregate demand

19.

If the Ricardian equivalence proposition is correct, then an increase in the deficit will lead to

A) an increase in private saving.

B) a decrease in investment spending.

C) a lower standard of living in the future.

D) all of the above

E) none of the above

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20.

One surprising insight from viewing policy as a "game" is that

- A) central bankers should project an image of being conservative on economic policy matters, regardless of their personal views.
- B) it is more difficult to control inflation when the central bank is highly independent.
- C) uncertainty over the impact of policy makes little difference in designing an optimal policy.
- D) money growth has little or no impact on inflation in the long run.
- E) decreasing money growth may substantially increase the rate of inflation in the long run.

II.

**Essay Questions (60%)****1. Public Goods, Externality, and Efficiency (20%)**

- a) Explain why the social demand curve for a public good is the vertical sum of the demand curves of each individual. (6%)
- b) Because a monopoly will produce less of a good than a competitive market will, welfare is always greater under monopoly than under competition in the presence of a negative externality. (7%)
- c) Can consumption efficiency be achieved even if the efficient product mix is not achieved? (7%)

**2. Monopolistic Competition (20%)**

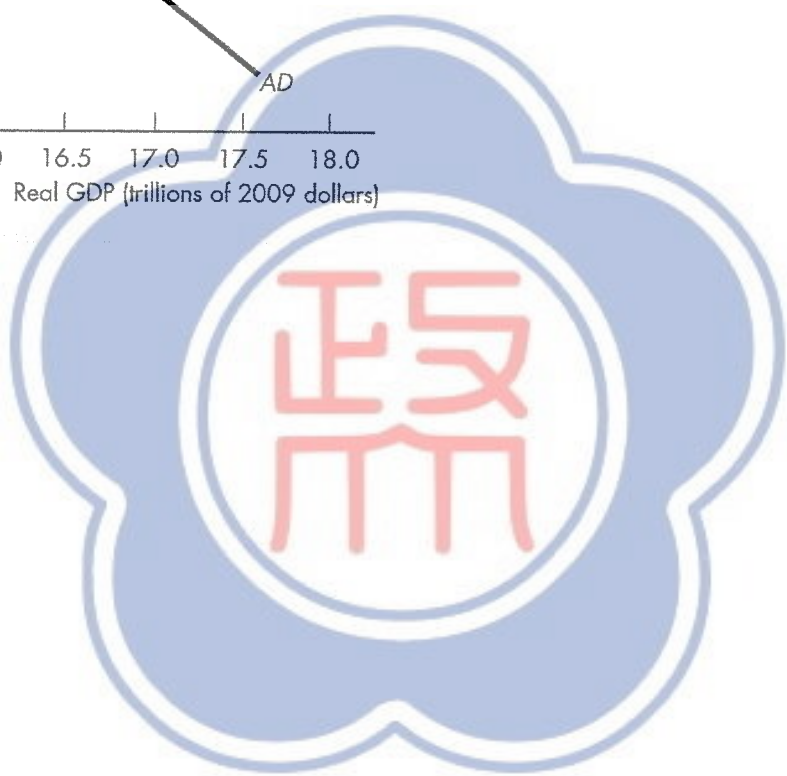
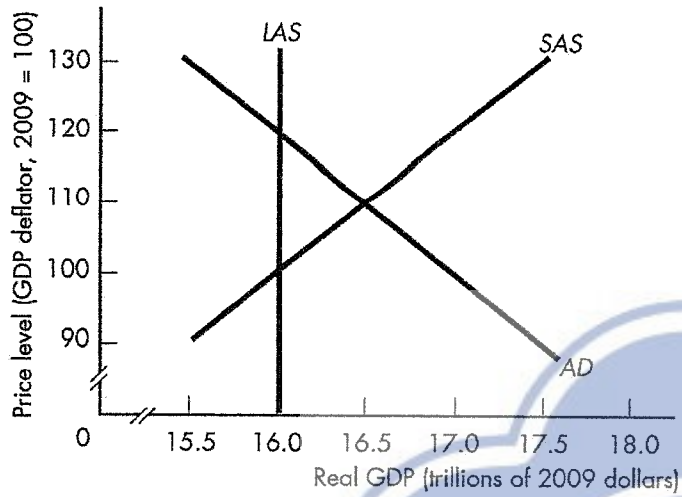
- a) Is it true that in the long run, a monopolistically competitive firm has market power but earns no profit? Explain. (6%)
- b) Explain why firms in monopolistic competition have excess capacity in the long run. (6%)
- c) In February 2021, Texas suffered a power blackout that came about as a result of three severe winter storms sweeping across the United States. The storms massively damaged electricity generation in Texas, leading to shortages of water, food, and heat. More than 4.5 million homes and businesses had no power for several days and hundreds of people dead directly or indirectly because of this event. Texas has its own power system that does not connect with other parts of the U.S. The market structure of electricity is competitive in Texas, while is mainly monopolistic competitive elsewhere in the U.S. Given these information, explain why no excess capacity at the firm level in a competitive power market and independent power system together possibly cause the Texas power blackout in 2021? (8%)

**3. Macroeconomics (20%)**

- a) What is the government expenditure multiplier? (5%)
- b) "The federal budget is required by law to balance." Is the previous statement correct or incorrect? (5%)
- c) What is the Laffer curve? (5%)

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d) Does the figure below illustrate a recessionary or an inflationary gap? What do potential GDP and real GDP equal? What is an appropriate fiscal policy to restore real GDP to potential real GDP? (5%)



備註	一、作答於試題上者，不予計分。 二、試題請隨卷繳交。
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