考 試 科 目	經濟學	系 所 別	財政系	考 試 時 間	2月2日（五）第一節

Multiple Choice Questions (30%)

1.

Data shows that United States college students purchase more e-books than German college students. Assuming that all students have identical preferences for e-books and textbooks, what is the likely explanation for this result?

A) Taxes on textbooks are higher in the United States than taxes on textbooks in Germany.

B) Taxes on textbooks are lower in the United States than taxes on textbooks in Germany.

C) The price of textbooks is cheaper in the United States than textbooks in Germany.

D) Both A and C.

2.

In the short run, a perfectly competitive firm NEVER

A) earns an economic profit.

B) incurs a loss greater than its total fixed costs.

C) produces where $MR = MC$.

D) earns a normal profit.

3.

When insurance companies offer fair insurance,

A) risk-averse agents always purchase it.

B) risk-neutral agents never purchase it.

C) risk-loving agents always purchase it.

D) nobody would purchase fair insurance.

4.

Suppose twenty neighbors share a park. One of the neighbors, Al, leaves trash in the park. This bothers the other neighbors. According to Coase's Theorem, assigning the property rights to the park to Al

A) will achieve the socially optimal quantity of trash.

B) will result in zero trash being dumped in the park.

C) might still not achieve the social optimum since coordinating the other nineteen neighbors can be costly.

D) is unfair.

備　　註	一、作答於試題上者，不予計分。 二、試題請隨卷繳交。

| 考 試 科 目 | 經濟學 | 系 所 別 | 財政系 | 考 試 時 間 | 2 月 2 日（五）第一節 |

5.

Firms that seek to avoid hiring lazy workers that assert they are hardworking are trying to avoid

A) adverse selection.

B) moral hazard.

C) screening.

D) signaling.

6.

The IS curve becomes steeper when:

A) government spending is relatively small.

B) the income tax rate in the current period is relatively small.

C) current changes in the real interest rate cause large changes in current real output.

D) changes in the current real interest rate cause small changes in current demand.

E) none of the above.

7.

Suppose the minimum wage decreases. Given this event, we would expect which of the following to occur?

A) a reduction in the price level and an increase in output in the medium run

B) an increase in the aggregate price level as output increases

C) an increase in the interest rate in the medium run

D) none of the above

8.

The "Lucas critique" is that

A) policy changes affect expectations, which in turn affect the impact of the policy.

B) increasing unemployment to reduce inflation is more costly to society than economists traditionally think.

C) in the medium run, output always returns to its natural level.

D) macro data based on government surveys is inaccurate.

E) policy changes can affect the economy only when they are expected.

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9.

Suppose a liquidity trap situation exists. Which of the following is most likely to occur if taxes are cut?

A) no change in output and no change in the interest rate

B) an increase in output and an increase in the interest rate

C) an increase in output and little change in the interest rate

D) an increase in output and a reduction in the interest rate

E) none of the above

10.

The debt-to-GDP ratio is higher,

A) the lower the real interest rate

B) the lower is the ratio of the primary deficit to GDP

C) the higher is the growth rate of output

D) all of the above

E) none of the above

Essay Questions (70%)

1. Consumer Theory (15%)

For the following three questions, please answer "True" or "False" and explain why.

a) Consumers do not prefer gifts-in-kind to cash gifts. (5%)

b) A tax cut will unambiguously lower income-tax revenue. (5%)

c) Your preference can be represented by any two total utility functions, say, $U(x) = x$ and $V(x) = x^{0.5}$, if their preference order is totally the same. Mathematically speaking, this can be shown as $V(x) = F(U(x))$; $F' > 0, F'' \gtreqless 0$, which means that we can obtain your another total utility function $V(x)$ by simply taking a positive monotonic transformation $F(U(x))$ on your original total utility function $U(x)$. Given the above information, do you think it's true that the above two total utility functions $U(x) = x$ and $V(x) = x^{0.5}$ that both represent your preference both exhibit the property of diminishing marginal utility that is commonly observed in our daily lives? (5%)

考 試 科 目	經濟學	系 所 別	財政系	考 試 時 間	2 月 2 日(五) 第一節

2. Monopolistic Competition (15%)

Ike, Inc., a firm in monopolistic competition, produces sport shoes of low- to medium-end. The company's economists know that it can sell no shoes at $80, and for each $10 cut in price, the quantity of shoes it can sell increases by 50 a day. This relationship continues to hold until the price falls to $20. The firm's total fixed cost is $3,000 a day. Its marginal cost is constant at $20 per pair of shoes.

a) Draw the demand curve faced by the firm and its marginal revenue curve. Also draw Ike's marginal cost and average total cost curves. (4%)

b) What quantity of shoes (in pairs) should Ike produce to maximize its profit? What price should it charge? (4%)

c) What is the firm's short-run economic profit or loss? (3%)

d) In the long run, what will happen to the demand for Ike's shoes, the quantity of shoes sold, the price charged, and the firm's economic profit? (4%)

3. AD-AS and IS-LM models (20%)

Recently the minimum wage issue has drawn attention since President Tsai said that it is her dream that youngsters are able to receive 30k as their starting salaries. Assume that Taiwan's output is initially at potential level. Based on your understanding of the AS-AD and the IS-LM models, graphically illustrate and explain what effects an increase in the minimum wage will have on the economy in terms of the output, price level, unemployment rate, real interest rate, and investment. In your graphs, clearly illustrate the short-run and medium-run equilibria. (15%) Also include in your answer an explanation of the effects of this change in the minimum wage on the labor market and the equilibrium real wage. (5%)

4. Solow Model (20%)

a) During the latter half of the 1990s, the U.S. saving rate decreased. Will this reduction in the saving rate have a permanent effect on the rate of growth of output per worker? Explain. (5%)

b) The U.S. government plans to encourage its people to save more. Use a Solow Model diagram to illustrate and explain its effects. Please clearly label all curves and equilibria in your graph. (10%)

c) Suppose policy makers instead wish to increase the steady state consumption per worker. Explain what must happen to the saving rate to achieve this objective. (5%)