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## 一、Multiple Choice Questions (40%)

1.

Charlie's Chimps is a perfectly competitive firm that produces cuddly chimps for children. The market price of a chimp is \$10, and Charlie's produces 100 chimps. The marginal cost of the 100th chimp is \$9. Charlie's \_\_\_\_\_.

- A) is maximizing its profit
- B) will maximize its profit if it produces more than 100 chimps
- C) will maximize its profit if it lowers the price to \$9 a chimp
- D) will maximize its profit if it produces fewer than 100 chimps

2.

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, the optimal level of trash in the park can be achieved if

- A) Al is fined by the government.
- B) Al has the right to leave trash and Bert cannot do anything about it.
- C) Al has the right to leave trash and Bert can pay him to limit his dumping.
- D) Bert moves.

3.

If an individual makes her investment decisions based solely on the Net Present Value criterion, one can conclude that she is

- A) risk averse.
- B) risk neutral.
- C) risk loving.
- D) extremely wealthy.

4.

A firm uses an efficiency wage scheme to deter workers from shirking. A risk-neutral worker will not shirk if

- A) the expected loss from being fired is larger than or equal to the gain from shirking.
- B) the expected loss from being fired is smaller than the gain from shirking.
- C) the gain from shirking is positive.
- D) the expected loss from being fired is zero.

5.

With respect to consuming food and shelter, two consumers face the same prices and both claim to be in equilibrium. We therefore know that

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- A) they both have the same marginal utility for food.  
 B) they both have the same marginal utility for shelter.  
 C) they both have the same MRS of food for shelter.  
 D) All of the above.

6.

If you sell your DVD player on eBay, you will be better informed about the quality of the product than any potential buyer. This is called

- A) adverse selection.  
 B) asymmetric information.  
 C) moral hazard.  
 D) opportunistic behavior.

7.

If the demand curve for a good is horizontal and the price is positive, then a leftward shift of the supply curve results in

- A) a price of zero.  
 B) an increase in price.  
 C) a decrease in price.  
 D) no change in price.

8.

When neither player has a dominant strategy,

- A) game theory will not provide information.  
 B) no Nash-Equilibrium exists.  
 C) at least one Nash-Equilibrium exists.  
 D) the game cannot be analyzed.

9.

The existence of a deadweight loss associated with a monopoly can be seen because

- A) consumers are willing to pay more for the last unit of output than it costs to produce.  
 B) the cost of the last unit produced is more than consumers are willing to pay for it.  
 C) the producer surplus is larger than in a competitive market.  
 D) None of the above.

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10.

A general equilibrium analysis of a price change in the corn chip market would include an investigation of the impacts in

- A) the television market.
- B) the coffee market.
- C) the salsa market.
- D) All of the above.

11.

Which of the following would tend to make the multiplier smaller?

- A) an increase in the marginal propensity to consume
- B) an increase in the marginal propensity to save
- C) a reduction in taxes
- D) a reduction in government spending
- E) none of the above

12.

Which of the following is not included as a component of the M1 definition of money?

- A) bonds
- B) checkable deposits
- C) coins and bills held by the nonbank public
- D) all of the above
- E) none of the above

13.

For this question, assume that investment spending depends only on the interest rate and no longer depends on output. Given this information, a reduction in the money supply

- A) will cause investment to decrease.
- B) will cause investment to increase.
- C) may cause investment to increase or to decrease.
- D) will have no effect on output.
- E) will cause a reduction in output and have no effect on the interest rate.

14.

The natural rate of unemployment is the rate of unemployment

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- A) that occurs when the money market is in equilibrium.  
 B) that occurs when the markup of prices over costs is zero.  
 C) where the markup of prices over costs is equal to its historical value.  
 D) that occurs when both the goods and financial markets are in equilibrium.  
 E) none of the above

15.

In the Phillips curve equation, which of the following will cause an increase in the current inflation rate?

- A) an increase in the expected inflation rate  
 B) a reduction in the unemployment rate  
 C) an increase in the markup,  $m$   
 D) all of the above  
 E) none of the above

16.

Suppose there is a reduction in the saving rate. This decrease in the saving rate will cause a reduction in which of the following once the economy reaches its new steady state equilibrium?

- A) growth rate of output  
 B) growth rate of capital  
 C) growth rate of capital per worker  
 D) all of the above  
 E) none of the above

17.

“Animal spirits” refers to

- A) the stubborn refusal of many economic decision-makers to use rational expectations.  
 B) movements in investment that cannot be explained by changes in current variables.  
 C) the often-observed Fed refusal to cooperate with the government in setting its monetary policy.  
 D) the impact of tax-evasion on the budget deficit.  
 E) an exotic alcoholic drink favored by Wall Street traders.

18.

The existence of the J-curve suggests that a real depreciation will cause

- A) an initial increase in net exports.  
 B) an initial increase in economic activity.



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C) a final reduction in net exports.

D) an initial reduction in the demand for domestic goods.

19.

When policy makers decide to devalue the currency, such an action generally represents

A) a decision to let the currency float.

B) an increase in the pegged value of the domestic currency.

C) a reduction in the foreign price level.

D) a reduction in the domestic price level.

E) none of the above

20.

To solve the "time inconsistency" problem in macro policy, a nation may well have to

A) restrict itself in the present from taking certain policy moves in the future.

B) lift all restrictions on future policy moves.

C) present policy moves to the public, for example, in a referendum.

D) use the courts to settle policy disputes.

E) make the central bank more responsive to the popular will.

二.

## Essay Questions (60%)

### 1. General Equilibrium and Welfare (20%)

a) Explain why having different marginal rates of substitution is necessary for trade to occur. (7%)

b) Suppose the U.S. can produce 10 units of food and 5 units of clothing (or any linear combination) and Canada can produce 6 units of food and 3 units of clothing (or any linear combination). What type of trade will occur between these two countries? Explain. (7%)

c) Explain the logic behind the First Theorem of Welfare Economics. (6%)

### 2. Oligopoly (20%)

Nimbus, Inc., and Cleansweep, Inc., are the only producers of flying brooms. Each firm has two strategies: Spend 30,000 galleons a year on research and development (R&D) or spend nothing on R&D. If neither firm spends on R&D, Nimbus' economic profit is 80,000 galleons and Cleansweep's economic profit is 40,000 galleons. If each firm conducts R&D, market shares are maintained, but each firm's profit is lower by the amount spent on R&D. If Nimbus conducts R&D and Cleansweep does not, Nimbus makes an economic profit of 120,000 galleons, while Cleansweep incurs an economic loss of 20,000 galleons. If Cleansweep conducts R&D and Nimbus does not, Cleansweep makes a profit of 60,000 galleons while Nimbus loses 10,000 galleons.

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<p>a) Construct a payoff matrix for the game that Nimbus and Cleansweep must play. (7%)</p> <p>b) Find the Nash equilibrium. In the Nash equilibrium, what is each firm's equilibrium profit? (7%)</p> <p>c) What is the cooperative outcome? Would the firms make more economic profit if they collude to achieve the cooperative outcome? (6%)</p> <p><b>3. AD-AS and IS-LM models (20%)</b></p> <p>Based on your understanding of the aggregate supply and aggregate demand model and the IS-LM model, graphically illustrate and explain what effect a reduction in the price of oil will have on the economy. In your graphs, clearly illustrate the short-run and medium-run equilibria. Also include in your answer an explanation of the effects of this change in the price of oil on the labor market and the equilibrium real wage.</p> <div data-bbox="399 739 1197 1500" data-label="Image"> </div>					
備 註	<p>一、作答於試題上者，不予計分。</p> <p>二、試題請隨卷繳交。</p>				