

CITY UNIVERSITY OF HONG KONG

Course code & title : FB2400 Economics I
Session : Semester B 1998-1999
Time allowed : Two hours

This paper has 7 pages.

1. This paper has two sections, A and B.
 2. Section A contains 25 multiple-choice questions. Answer all questions in Section A.
 3. Section B contains 4 long questions. Answer any 2 questions.
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Materials and aids permitted for the examination: Calculator

Section A: Answer all questions in this section. Each multi-choice carries 2 marks.

1. Marginal cost reaches its lowest level before average total cost because:
 - a) The marginal cost is the additional cost as output rises.
 - b) The marginal cost does not include the fixed cost.
 - c) The marginal cost falls at low level of output and rises as output rises.
 - d) The average total cost falls at low level of output and rises as output rises.
 - e) None of the above.

2. All of the following are features in price discrimination except:
 - a) A reduction in consumer surplus.
 - b) The presence of deadweight loss.
 - c) The absence of price arbitrage.
 - d) Market segregation.
 - e) None of the above.

3. A firm should increase its price when demand is _____, and lower its price when demand is _____.
 - a) inelastic, elastic
 - b) elastic, inelastic
 - c) unitary elastic, elastic
 - d) inelastic, unitary elastic
 - e) inelastic, inelastic

4. Which of the following institution in Hong Kong does not perform some functions of the central bank?
 - a) Bank of China
 - b) Standard Chartered Bank
 - c) Hong Kong and Shanghai Banking Corporation
 - d) Hang Seng Bank
 - e) None of the above.

5. Excess demand exists when:
 - i) The supply curve shifts outwards.
 - ii) The demand curve shifts outwards.
 - iii) A price is set below equilibrium price.
 - iv) A price is set above equilibrium price.
 - v) More is demanded.
 - a) ii), iii), and v)
 - b) v) only
 - c) ii), and iii)
 - d) iv) and v)
 - e) iv) and i)

6. The deadweight loss arising from:
- a) A tariff is the same as a quota.
 - b) A tariff is greater than a quota.
 - c) A tariff is smaller than a quota.
 - d) A tariff has a larger effect on income than a quota.
 - e) None of the above.
7. In an internal economy, saving (S) equals to:
- a) $Y - C - G$
 - b) $Y - T - C$
 - c) $Y - T - G$
 - d) $C + I + G$
 - e) $Y - C + G$
8. As output rises,
- a) The marginal cost curve becomes the supply curve.
 - b) The average variable cost comes close to the average total cost.
 - c) The fixed cost remains constant.
 - d) Total cost rises faster than the marginal cost.
 - e) Total cost rises faster than the variable cost.
9. Which of the following is not the same between perfect competition and monopoly?
- a) $MC = MR$
 - b) Demand sloping market demand.
 - c) A U-shape total cost curve.
 - d) $P = AR = MR$
 - e) None of the above.
10. Which of the following is not the same between monopoly and monopolistic competition?
- a) Product differentiation.
 - b) A downward sloping MR curve.
 - c) Excess capacity
 - d) An upward sloping or horizontal MC curve.
 - e) All of the above.

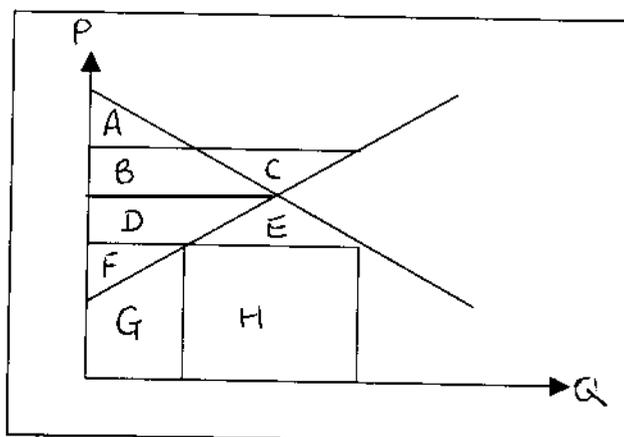
11. A firm facing a oligopoly market tends to keep price constant because:
- Colluding will make them behave like a monopoly.
 - Competitors will follow a price fall, but not a price rise.
 - Marginal cost can shift upwards without affecting profit.
 - Self-interest dominates the behavior of other firms.
 - None of the above.
12. The GDP deflator tells us:
- The difference between nominal and real GDP.
 - The rise in GDP that is due to price change rather than a rise in quantity produced.
 - The rise in GDP that is due to the change in quality of life rather than a rise in quantity produced.
 - The difference between nominal GDP and the Consumer Price Index.
 - The difference between the current year and base year prices in the measurement of GDP.
13. Given the simple demand function: $P = f(P, Y, P_o, T, E)$, where P is price of the good, Y is income, P_o is the price of other goods, T is taste and E is expectation. A change in quantity demanded is due to a change in:
- P and P_o
 - Y, P_o , T and E
 - Y
 - P
 - None of the above.
14. Sellers will bear a larger burden than consumers will when a tax is imposed on the good. This occurs when:
- The demand curve is more elastic than the supply curve.
 - The demand curve is more inelastic than the supply curve.
 - The supply curve shifts out while the demand curve remains unchanged.
 - The demand curve shifts out while the supply curve remains unchanged.
 - Both the demand and supply curve shift out by the amount of the tax.
15. In the supply and demand for loanable fund market, a government budget deficit will lead to:
- The supply of loanable fund shifts inwards.
 - The supply of loanable fund shifts outwards.
 - The demand for loanable fund shifts inwards.
 - The demand for loanable funds shifts outwards.
 - The supply and demand for loanable funds remains unchanged.

16. Which of the following statement is correct?
- a) A higher domestic interest rate leads to a fall in net foreign investment.
 - b) The crowding out effect says that a rise in government spending improves investment.
 - c) Keynes's theory says that the price adjusts to bring money supply and money demand into equilibrium.
 - d) An increase in money supply reduces the rate of interest, which in turn leads to an inward shift of the aggregate demand curve.
 - e) The real interest rate is the sum of the nominal interest rate and the inflation rate.
17. Equilibrium employment is where:
- a) Marginal product of labor equals to wage.
 - b) Marginal product of labor equals to the price of the commodity.
 - c) Marginal product of labor equals to the value of marginal product.
 - d) Value of marginal product equals price of the commodity.
 - e) Value of marginal product equals to wage.
18. In the $MV = PY$ equation, a rise in money supply in a less than full employment situation will lead to a rise in:
- a) V
 - b) P
 - c) Y
 - d) PY
 - e) MV
19. Two goods are substitutes when their:
- a) Cross elasticity is greater than one.
 - b) Cross elasticity is positive.
 - c) Cross elasticity is negative.
 - d) Cross elasticity ranges from zero to one.
 - e) Cross elasticity is zero.
20. Rises in aggregate demand will temporarily _____, but will eventually _____.
- a) lead to a rise in output, lead to a fall in price
 - b) lead to a fall in output, lead to a rise in price
 - c) lead to a rise in output, lead to a rise in price
 - d) lead to a fall in output, lead to a fall in price
 - e) lead to a rise in output, lead to price unchanged

21. An economy tends to experience rapid growth for some years, then growth slows down because:
- Diseconomies of scale are experienced in production.
 - The growth of saving lags behind the growth of investment.
 - Capital experiences a diminishing return.
 - High inflation discourages growth.
 - The decline in the catch-up effect.
22. Externality occurs because:
- The presence of common resources.
 - Coase theorem's argument on transaction cost.
 - The presence of public goods.
 - The lack of government regulations.
 - The lack of a clear definition of property right.
23. Assume Hong Kong people's marginal propensity to consume equals to 0.6. When the government decided to give a tax rebate equalled to HK\$8 billion, the total effect on income equals to:
- HK\$ 4.8 billion
 - HK\$ 8 billion
 - HK\$13.3 billion
 - HK\$ 20 billion
 - None of the above.
24. The elasticity of a demand curve ranges from:
- zero to one
 - less than one to greater than one
 - zero to infinity
 - negative to positive
 - one to infinity

25. The following diagram shows an external economy with trade. The gain from import is the area:

- C
- A + B
- D + E
- E
- F + G + H



Section B: Answer any TWO questions from the following. Each question carries 25 marks.

1. Give your own elaboration on goods. What would happen to a good when it is faced with market failure? Support your answer with an example.
2. Monopolistic competition is a more realistic economic theory than monopoly. Do you agree?
3. Outline three theoretical situations in which the domestic currency experiences depreciation.
4. How can a change in price affect demand, investment and exports?

**** End ****