

EC10006

University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL
DEVELOPMENT

Year I : Semester I : EC10006

INTRODUCTORY MICROECONOMICS

Wednesday, 21 January 2004. 1300 – 1500

**PLEASE WRITE YOUR NAME IN THE SPACE PROVIDED IN THE
ANSWER BOOK AND SEAL THE FLAP WITH YOUR
CANDIDATE NUMBER LABEL**

A calculator is not required for this examination

ANSWER ALL QUESTIONS FROM SECTION A

AND

ONE QUESTION FROM SECTION B

EC10006 Introductory Microeconomics

Answer all questions from Section A and one question from Section B.

Sections A and B comprise 50% of the total marks each.

Section A

1. Outline the social welfare effects of monopolising a perfectly competitive industry where welfare (W) is defined as $W = CS + PS$, where CS = Consumer Surplus, PS = Producer Surplus. [8 marks]
2. How would your answer to question 1 above change if the monopoly were permitted to perfectly price discriminate? [2 marks]
3. Do minimum wages always reduce employment? Explain. [10 marks]
4. Is it possible when there are only two goods, x and y , (a) for y to be both a substitute for x and a normal good; (b) for y to be both a complement to x and an inferior good? [10 marks]
5. Outline the effect of a three-fold increase in demand on the equilibrium of a perfectly competitive industry in the short run and the long run. [10 marks]
6. What do economists mean by the 'prisoner's dilemma'? [10 marks]

Section B

7. Illustrate graphically the conditions under which an individual would buy:
 - (a) a 'full and fair' insurance contract?
 - (b) a national lottery ticket?
8. A monopolist has a marginal cost function $MC = 2 + 4q$ and faces the market demand curve $q^d = 20 - p$. All prices and costs are measured in £s per unit of quantity.
 - (a) Calculate the equilibrium price and quantity in the market.
 - (b) The Treasury imposes a per unit sales tax (i.e. a tax on the monopolist per unit sold) of £6. Calculate the new equilibrium price and quantity.
 - (c) Assume the monopolist lobbies the Government to have the sales tax removed. The Government relents and instead imposes a per unit purchase tax (i.e. a tax on buyers per unit purchased) of £6. Calculate the new equilibrium price and quantity in this market.
 - (d) Were the monopolist's lobbying efforts worthwhile?
 - (e) What determines the size of the tax burden?

9. How do economists explain the fact that the majority of output is produced by a minority of firms?
10. 'If every market in the economy is a perfectly competitive free market, the resulting equilibrium throughout the economy will be Pareto efficient.' Discuss.
11. In what sense is it true that a firm's decision as to how much output to supply is the same thing as its decision as to how much factor input to demand?