

EC10006

University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL DEVELOPMENT

Year I : Semester I : EC10006

INTRODUCTORY MICROECONOMICS

Tuesday, 17 January 2006. 1630 – 1830

ANSWER ALL QUESTIONS FROM SECTION A

AND

ONE QUESTION FROM SECTION B

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

A calculator is not required for this examination

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. In what sense does monopolistic competition imply ‘...too many firms each producing too little output.’ (10 marks).
2. Can all goods be inferior? Illustrate your answer with the use of a diagram. (10 marks)
3. Explain the incentives for firms to: (a) set up cooperative agreements; (b) renege on co-operative agreements. (10 marks)
4. Do minimum wages reduce employment? Explain. (10 marks)
5. Identify and discuss the income and substitution effects associated with a price change using the: (a) Hicks Compensating Variation; (b) Slutsky Equivalent Variation.
(10 marks)

Section B

6. Explain the first theorem of welfare economics. Why might the theorem not hold?
7. ‘The backward bending supply curve of labour suggests that Giffen goods are not necessarily inferior.’ Discuss.
8. Critically appraise the Cournot and Bertrand models of competitive oligopoly.
9. Examine the potential for firms to participate in price discrimination in **both** their input and output markets.
10. Explain, with the aid of diagrams, the concept of risk averseness. How does the concept help to explain: (a) the market for insurance; (b) the market for national lottery tickets?