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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2019				

ECO205 – Management Economics	DURATION	
	Reading Time:	10 minutes
	Writing Time:	120 minutes

INSTRUCTIONS TO CANDIDATES

Section A: Suggested Time: 30 mins	Multiple Choice Questions: Answer ALL 10 questions. Marks as indicated on paper (Total marks = 10)
Section B: Suggested Time: 30 mins	Short Answer Questions: Answer ANY 2 questions out of 3 questions. Marks as indicated on paper. (Total marks = 20)
Section C: Suggested Time: 60 mins	Long Answer Questions: Answer any 1 question out of 2 questions. Marks as indicated on paper. (Total marks = 20)

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a CLOSED BOOK examination

Any calculator is permitted

No handwritten notes are permitted

No dictionaries are permitted

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
No additional printed material is permitted	1 x 16 Page Book 1 x Scrap Paper Graph Paper

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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Section A
Multiple Choice Questions
Answer ALL Ten (10) Questions
Each Question is worth 1 Mark
Total marks for this Section A are 10

Question 1

If you put \$700 in a savings account at an interest rate of 3%, how much money will you have in one year?

- A. \$370.
- B. \$679.61.
- C. \$703.
- D. \$721.

(1mark)

Question 2

Suppose both supply and demand decrease. What effect will this have on price?

- A. It will fall.
- B. It will rise.
- C. It may rise or fall.
- D. It will remain the same.

(1mark)

Question 3

When marginal revenue is zero, total revenue

- A. will increase when price increases.
- B. is maximized.
- C. will decrease when price decreases.
- D. will decrease as quantity decreases.

(1mark)

Question 4

Which of the following is true under monopoly?

- A. Profits are always positive.
- B. $P > MC$.
- C. $P = MR$.
- D. All the above choices are true for monopoly.

(1mark)

Question 5

You are the manager of a firm that sells its product in a competitive market at a price of \$50. Your firm's cost function is $C = 40 + 5Q^2$. Your firm's maximum profits are

- A. 125.
- B. 250.
- C. 100.
- D. 85.

(1mark)

Question 6

Which of the following are price-setting oligopoly models?

- A. Stackelberg.
- B. Cournot.

- C. Bertrand.
- D. Cournot and Stackelberg.

(1mark)

Question 7

Which of the following is a profit-maximizing condition for a Cournot oligopolist?

- A. $MR = MC$.
- B. $Q_1 = Q_2 = \dots = Q_n$.
- C. $P = MR$.
- D. all the statements associated with this question are correct.

(1mark)

Question 8

"An oligopoly is an oligopoly. Firms behave the same no matter what type of oligopoly it is." This statement is:

- A. true.
- B. false.
- C. true of homogeneous product industries.
- D. none of the statements associated with this question are correct.

(1mark)

Question 9

Which of the following pricing strategies does not usually enhance the profits of firms with market power?

- A. Price matching.
- B. Cross-subsidies.
- C. Two-part pricing.
- D. Marginal cost pricing.

(1mark)

Question 10

Suppose the growth rate of the firm's profit is 7%, the interest rate is 10%, and the current profits of the firm are 120 million dollars. What is the value of the firm?

- A. \$44 million.
- B. \$4,280 million.
- C. \$4,400 million.
- D. \$6,800 million.

(1mark)

Section B
Short Answer Problem Solving Questions
Answer Any Two (2) out of Three (3) Questions
Each Question is worth 10 Marks
Total marks for Section B are Twenty (20)

Question 1

Control Variables	Total Benefits (\$)	Total Costs (\$)	Net Benefits (\$)	Marginal Benefit (\$)	Marginal Cost (\$)	Marginal Net Benefit (\$)
Q	B(Q)	C(Q)	N(Q)	MB(Q)	MC(Q)	MNB(Q)
0	0	0	0	-	-	-
1	900	100	800	900	100	800
2	1,700	300	C	800	200	600
3	2,400	600	1,800	700	E	400
4	A	1,000	2,000	600	400	200
5	3,500	1,500	2,000	500	500	F
6	3,900	2,100	1,800	D	600	-200
7	4,200	2,800	1,400	300	700	-400
8	4,400	B	800	200	800	-600
9	4,500	4,500	0	100	900	-800
10	4,500	5,500	-1,000	0	1,000	-1,000

- What is the total benefit associated with producing four units of the control variable, Q (identify point A in the above table)? (1mark)
- What is the total cost associated with producing eight units of the control variable, Q (identify point B in the above table)? (1mark)
- What is the net benefit associated with producing two units of the control variable, Q (identify point C in the above table)? (2 marks)
- What is the marginal benefit associated with producing six units of the control variable, Q (identify point D in the above table)? (2marks)
- What is the marginal cost associated with producing three units of the control variable, Q (identify point E in the above table)? (2marks)
- What is the marginal net benefit associated with producing five units of the control variable, Q (identify point F in the above table)? (2marks)

Question 2

The demand for some item is represented as $D = 30 - 2p + 0.04Y + 4s$ where D is the quantity demanded in units a year, p is the price of the item in dollars per unit, Y is the buyer's income in thousands of dollars a year, and s is the value of another factor such as preference.

- Suppose $Y = 100$ and $s = 0.5$, then describe in words the relationship between quantity demanded and Price?
(4 marks)
- Use the demand curve to illustrate the effect of changes in prices and changes in income. Explain clearly the differences in the quantity demanded due to these changes.
(6 marks)

Question 3

Suppose three purchasers of new cars have the following valuations for options.

Consumer	Air conditioner	Power Breaks
1	\$1,000	\$500
2	\$800	\$300
3	\$100	\$800

Assume the firm's costs are zero

- If the manager knows the valuations and identity of each of the consumers, what is the optimal strategy?
(5 marks)
- Suppose the manager does not know the identities of the buyers. How much will the firm make if the manager sells breaks and air conditioners for \$800 each but offers a special options package (power breaks and an air conditioner) for \$1,100?
(5 marks)

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Section C
Written Essay Question
Answer Any One (1) out of Two (2) Questions
Total marks for Section C are Twenty (20)

Question 1

What are the main management economic implications of relocating an assembly plant from a parent company to a subsidiary in another country?

(20 marks)

Question 2

Discuss the implications of a firm disposing its untreated biomedical waste in open garbage bins.

(20 marks)

End of the Paper