

FINAL EXAM – ODD SEMESTER 2017/18
ECEU 600103 – Introductory Economics 1

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- Answer all questions carefully. Use diagrams/graphs if necessary.
 - Exam duration is 3 hours (180 minutes). Use it efficiently and effectively!
 - Use a formal English.
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Problem 1 (14 points)

Monopoly market is often accused generating of social costs.

- Do you agree with the statement? Explain (hint: use diagrams/graphs to support your arguments). [7 points]
- Do you think if a monopolist is a natural monopoly will decrease its social cost? Explain. [7 points]

Problem 2 (20 points)

PT. Emprit Air is a pure monopolist operating in the aviation business in the country of Alengka. Similar to other firms, PT Emprit Air also aims to optimize its profit. The company, however, suffers losses in 2017. Draw the demand curve, the marginal revenue curve, and the average total cost curve of the company that illustrate the condition.

- As a monopolist, would it be possible for PT Emprit Air to suffer losses? Explain and use the graphs to show the unfavourable situation faced by PT Emprit Air in 2017. (hint: show the profit maximizing output and price in the graph). [5 points]
- What should PT Emprit Air do to get profit and get rid of its losses. Explain and show it in the graph! [5 points]
- What are the strategic choices that PT Emprit Air can take to increase its profit as a monopolist? Explain your answers! [5 points]
- What should the government do to encourage the company to increase its output? Explain and show it in the graph! [5 points]

Problem 3 (16 points)

- Compare perfect competition to monopoly market. Explain each of their characteristics! [8 points]
- Also, compare perfect competition to monopolistic competition market. Explain each of their characteristics. [8 points]

Problem 4 (12 points)

The matrix below shows payoffs based on the strategies chosen by two aviation firms: Boeing and Airbus. If they collude and hold prices at \$10, each will earn profits of \$5 million. If Airbus cheats on the agreement, lowering its price, but Boeing does not, Airbus will get 75 percent of the business and earn profits of \$8 million and Boeing will lose \$2 million. Similarly, if Boeing cheats and Airbus does not, Boeing will earn \$8 million and Airbus will lose \$2 million. If both cut prices, they will end up with \$2 million each in profits.

		Boeing's Strategy	
		Collude	Cheat
Airbus's Strategy	Collude	Airbus's profit = \$ 5 million Boeing's profit = \$ 5 million	Airbus's profit = - \$ 2 million Boeing's profit = \$ 8 million
	Cheat	Airbus's profit = \$ 8 million Boeing's profit = - \$ 2 million	Airbus's profit = \$ 2 million Boeing's profit = \$ 2 million

- a. Which strategy minimizes the maximum potential loss for Airbus, and for Boeing? If you were the CEO of Airbus, which strategy would you choose? Why? [4 points]
- b. If Airbus cheats, what will Boeing do? If Boeing cheats, what will Airbus do? [4 points]
- c. What is the most likely outcome of such a game? Explain. [4 points]

Problem 5 (18 points)

- a. What are the factors that determine the wage of workers in the input market? What is the role of the labor union in the wage determination? Explain. [6 points]
- b. Why does the labor supply curve backward bends? Use the substitution effect and the income effect to explain your answer! [6 points]
- c. The demand for labor has an inverse relationship with the wage. Explain the meaning of the statement briefly! [6 points]

Problem 6 (20 points)

Explain your understanding on the following concepts clearly:

- a. Public goods
- b. Externalities
- c. Zero Profit
- d. Shut-Down Point

*** Enjoy working alone ***