



UNIVERSITAS INDONESIA
FACULTY OF ECONOMICS AND BUSINESS
Regular and International Undergraduate Program

FINAL EXAM
Odd Semester 2019/2020
PENGANTAR EKONOMI 1 / INTRODUCTORY MICROECONOMICS
ECEU600103 (3 CREDITS)

Date: 20 December 2019
Duration: 3 hours (180 minutes)

Answers all the problem questions below. Manage your time effectively.

PROBLEM 1 (25 POINTS)

Perfect competition and monopoly are two market structures with very different characteristics.

- Draw in one graph the long run market equilibrium of firms in perfect competition and pure monopoly! Explain and show their differences. [10 points]
- Suppose that firms in the perfectly competitive market manage to enjoy positive economic profit in the short run, what would happen to the long run equilibrium? Show it in the graph and explain your answer! [7 points]
- Firms in the perfectly competitive market often find it difficult to decide on shut down or exit when the market condition is no longer favorable. Explain the conditions for shut down and exit and show their differences in the graph! [8 points]

PROBLEM 2 (20 POINTS)

- Explain why monopolistic competition exhibits excess capacity in the long run. Show it in the graph. [5 points]
- Compare the long run equilibrium of firms in monopolistic competition and in perfect competition. [5 points]
- Why is advertising important in monopolistic competition? Explain. [5 points]
- Explain whether the government needs to regulate the monopolistically competitive market. [5 points]

PROBLEM 3 (15 POINTS)

Two ride sharing firms, i.e. "Anterin Aja" (AA) and "Nebeng Dong" (ND), are formulating competitive strategies to boost their profits. Each considers two possible strategies, i.e. conduction selling promotion and doing nothing. If both firms choose to conduct selling promotion, each is expected to gain a profit of \$40 million. If they, however, choose to do nothing, each will get a higher profit of \$50 million. If one firm chooses to conduct selling promotion, while the other chooses to do nothing, the firm that conducts selling promotion will gain a profit of \$60 million, while the other firm that chooses to do nothing will get a significantly lower profit of \$30 million. Based on the information:

- a) Construct the game matrix of both players' choice of strategies and their payoffs. **[4 points]**
- b) If ND chooses to do promotion, what will be the possible payoff of each strategy played by AA? Suggest what strategy AA should choose and explain your answer. **[4 points]**
- c) Explain the term 'dominant strategy'. Is there any dominant strategy for AA and ND? Explain! **[3 points]**
- d) Explain the term 'Nash Equilibrium'. Is there any strategy that fulfils Nash Equilibrium for both firms? Explain! **[4 points]**

PROBLEM 4 (20 POINTS)

Suppose that a perfectly competitive firm in the agriculture sector utilizes labor as the only factor of production. The production function of the firm is shown in the table below.

Labor	Output (sacks/week)	MPL	VMPL or MRP	Marginal Profit
0	0			
1	100			
2	180			
3	240			
4	280			
5	300			

- a) Suppose that the firm sells its output for \$10 per sack per week and pays a wage of \$500 per week for each labor. Use the information to completely fill in the table above. **[6 points]**
- b) How many labors will be employed if the firm aims to maximize its profit? Explain! **[4 points]**
- c) Use the information to draw the firm's demand for labor. **[4 points]**

- d) Explain three factors that may shift the demand for labor. **[6 points]**

PROBLEM 5 (20 POINTS)

When various economic agents, producers and consumers alike, engage in their activities, they may often neglect the impact of their actions toward the well-being of others, particularly those who are not directly involved in the activities.

- a) Relating to the statement above, explain what is meant by market failure. Explain how negative externality causes market failure. Use graph to support your answer. **[6 points]**
- b) One possible private solution toward externality problems was proposed by Ronald Coase, known as the Coase Theorem. He argues that it can be very effective in some circumstances. Explain the term Coase Theorem and how it may work to provide effective private solution in dealing with externalities. Do you think this theorem would actually work in the real world? Explain! **[4 points]**
- c) Explain the four types of goods according to two characteristics, i.e. excludability and rivalry. Give example for each type of goods. **[6 points]**
- d) Explain the main characteristics of public goods and why public goods causes market failure! **[4 points]**

*** Happy working alone ***

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