



B.E. International Program

Faculty of Economics, Thammasat University



FINAL EXAMINATION: 2/2018

SUBJECT: EE211: PRINCIPLES OF MICROECONOMICS

DATE: TUESDAY, 21ST MAY 2019

TIME: 09:00 – 12:00 (3 HOURS)

Seat Number _____

Student ID _____

Instructions

1. There are 4 main questions with a worth of 80 points. (10 pages including the cover sheet.)
 2. Total amount of time to complete the exam is 180 minutes.
 3. Write your seat and ID numbers on every page before you start.
 4. Read each question *clearly and carefully*.
 5. To complete the exam, both pen and pencil are allowed to use.
 6. This is a closed book examination. Students are not allowed to bring any books, notes, dictionary into the examination room.
 7. All kinds of communication devices are strictly prohibited.
 8. Do your best and good luck!
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ATTENTION: Should anyone be caught cheating, he/she shall be automatically given an **F** and be suspended for **2** semesters.

1. (20 points) Thanos attempts to maximize his utility from choosing between two imperfectly substitutable stones: Infinity stones (good x) and Ordinary stones (good y). Assuming that Infinity Stones is a normal good and Ordinary stones is an inferior good. Both stones can be purchased from stone market in which P_x and P_y denote price of Infinity stone and of Ordinary stone, respectively. Answer the following questions.

1a. (15 points) Initially Thanos has his utility maximized, but later, Ordinary stones (good y) become cheaper by half, **analyze** change in his consumption of **both** Infinity stones (good x) **and** Ordinary stones (good y) due to substitution effect and income effect. **Fully explain** your process of decomposition of total effect (or price effect).

Remark: In your diagram, Infinity Stones (good x) **MUST** be on X-axis and Ordinary Stones (good y) **MUST** be on Y-axis. Failure to comply with this results in 30% reduction of your points awarded.

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1b. **(5 points)** Is it possible to apply the IC-Budget Line framework for the case where both stones are inferior goods and price of ordinary stone falls? Provide your explanation.

2. (20 points) Consider market for oranges which is assumed to be perfectly competitive. Answer the following questions.

2a. (10 points) In the short-run production, explain why a competitive firm's average cost curve (AC or ATC) is a U-shaped. Provide economic explanation with support of a diagram.

2b. **(10 points)** “Total cost of producing a given quantity of oranges will be lower in the long-run than in the short-run.” Do you agree or disagree? Fully explain with a supplement diagram by using either Isoquant-Isocost or long-run average cost curve framework.

3. (20 points) Consider market for paddle rice which is assumed to be perfectly competitive. Suppose that in the short run, a competitive firm in the market is producing a certain amount of paddle rice, but is currently making economic losses.

3a. **(10 points)** Illustrate the present situation above for this typical firm with a diagram. Would you recommend the firm owner to continue producing or to shut down? Fully explain.

3b. **(10 points)** Assuming there is no change in either demand or the firms' cost curves. If a competitive firm in the paddle rice market is earning positive economic profits, explain what would happen in the long run to the price of rice, marginal cost, average total cost, the quantity supplied by each firm, the firm's long run profits, and the market quantity supplied. Also use diagrams to complement with your explanation.

4. (20 points) Answer the following questions.

4a. **(10 points)** In a perfectly competitive market, we have observed that marginal revenue (MR) = price (P) while in monopoly structure, marginal revenue (MR) < price (P). Why is $MR < P$ in monopoly? Explain with diagram(s).

4b. **(10 points)** “*Monopoly is not economically efficient compare with perfectly competitive market.*”
Do you agree or disagree? Fully provide your explanation with support of a diagram. Compare the market outcomes (results) between monopoly and perfectly competitive market.