**UNEC, International School of Economics (ISE)**

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**Course: Microeconomics**

**Groups: 1025, 1026**

**FINAL EXAM QUESTIONS**

1. List and explain four determinants of the price elasticity of demand.
2. For each of the following pairs of goods, which good would you expect to have more elastic demand and why?
   1. Required textbooks or mystery novels
   2. Mozart’s recordings or classical music recordings in general
   3. Subway rides during the next 2 months or subway rides during the next 3 years
   4. Apple juice or water
3. Suppose that business travelers and vacationers have the following demand for airline tickets from Baku to London:

As thAs the price of tickets rises from X to Y, what is the price elasticity of demand for (i) business travelers and (ii) vacationers? (Use the midpoint method in your calculations.)

1. Suppose that business travelers and vacationers have the following demand for bus tickets from London to Berlin:

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded  (Business travelers) | Quantity Demanded  (Vacationers) |
|  |  |  |
|  |  |  |
|  |  |  |

As the price of tickets rises from X to Y, what is the price elasticity of demand for (i) business travelers and (ii) vacationers? (Use the midpoint method in your calculations.)

1. A price change causes the quantity demanded of a good to decrease by X percent, while the total revenue of that good increases by Y percent. Is the demand curve elastic or inelastic? Explain.
2. A price change causes the quantity demanded of a good to decrease by x percent, while the total revenue of that good increases by y percent. Is the demand curve elastic or inelastic? Explain.
3. Explain with graphs the verities of demand elasticity.
4. Explain the issue, how will an increase in price change total revenue, when demand is elastic?
5. Explain the relationship between total revenue and the price elasticity of demand. Illustrate graphs.
6. Suppose the price elasticity of demand for heating oil is X in the short run and Y in the long run. a. If the price of heating oil rises from A dollars to B dollars per gallon, what happens to the quantity of heating oil demanded in the short run? In the long run? (Use the midpoint method in your calculations.)
7. Suppose that your demand schedule for TV is as follows:

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded  (Income=A) | Quantity Demanded  (Income=B) |
|  |  |  |
|  |  |  |
|  |  |  |

Use the midpoint method to calculate your price elasticity of demand as the price of TV increases from X to Y if (i) your income is A and (ii) your income is B.

1. Explain the real case, why did OPEC fail to keep the price of oil high? Illustrate a graph for World Oil Market.
2. Explain why specialization is very important in international trade and what are the main benefits from it.
3. Ahmad can read X pages of history in an hour. He can also read Y pages of economics in an hour. He spends Z hours per day studying. Draw Ahmad’s production possibilities frontier for reading history and economics and explain briefly these two situations.
4. Explain the market economy and discuss the role of price in the market.
5. Explain with graphs the price ceiling policy of government.
6. Explain with graphs the price floor policy of government.
7. Analytically, discuss the role of economists in science and in the society.
8. Draw and explain a production possibilities frontier for an economy that produces milk and cookies. What happens to this frontier if disease kills half of the economy’s cows?
9. The market for bread has the following demand and supply schedules:

|  |  |  |
| --- | --- | --- |
| Price | Quantity Demanded | Quantity Supplied |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
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Graph the demand and supply curves. What is the equilibrium price and quantity in this market?

1. In a supply-and-demand diagram, show how a tax on car buyers of X dollars per car affects the quantity of cars sold and the price of cars. In another diagram, show how a tax on car sellers of Y dollars per car affects the quantity of cars sold and the price of cars. In both of your diagrams, show the change in the price paid by car buyers and the change in the price received by car sellers.
2. How does a tax on a good affect the price paid by buyers, the price received by sellers, and the quantity sold?
3. Explain how absolute advantage and comparative advantage differ. Why comparative advantage is important for the world economy?
4. Explain with graphs what is equilibrium in market.
5. Which causes a shortage of a good—a price ceiling or a price floor? Justify your answer with a graph.
6. How Price affects Consumer Surplus? Explain and draw Graphs.
7. Draw a demand curve for meat. In your diagram, introduce a price of meat and consumers surplus at that price. Explain what this consumer surplus measures.
8. Draw a supply curve for computer. In your diagram, introduce a price of computer and producer surplus at that price. Explain what this producer surplus measures.
9. Draw the supply and demand curves for mobile telephone. In the equilibrium, show producer and consumer surplus. Explain why producing more mobile telephones would lower total surplus.
10. Explain how market failure affects to market efficiency.
11. Explain with graphs how taxes affect to market players.
12. What is Deadweight loss? Draw a graph of supply and demand curves for books. If government imposes a tax on books, introduce what happens to price paid by buyers, the price received by sellers and quantity sold. Show the deadweight loss from the tax, in your diagram.
13. How do the elasticities of supply and demand affect the deadweight loss of a tax? Why do they have this effect? Explain.
14. Explain the gains and loses of exporting country from trade. Draw a graph.
15. Explain the gains and loses of importing country from trade. Draw a graph.
16. Why countries participate in International Trade and what are the benefits from trade? Explain.
17. What is the role of trade organizations in International Trade? Explain the case of World Trade Organization.
18. Explain with graph the effects of Tariffs in International Trade. Why countries use this policy?
19. What is the difference between the unilateral and multilateral approaches to achieving free trade? Give an example of each.
20. The world price of car is below the no-trade price in Country A and above the no-trade price in Country B. Using supply-and-demand diagrams and welfare tables introduce the gains from trade in each country. Compare your results for the two countries.
21. Explain analytically and show with graphs the participation of country in International Trade as an exporter and as an importer country.
22. Explain the term Externalities with examples and discuss the role of government in this case.
23. Explain Negative Externalities, draw a graph of market in this case and discuss the policies of government towards this situation.
24. Explain Positive Externalities, draw a graph of market in this case and discuss the policies of government towards this situation.
25. In what way does the patent system help society solve an externality problem?
26. How technological change can affect to the development of society? What are the possible policies of government towards technological change?
27. Discuss different types of goods and give examples.
28. What are some Important Public Goods? Explain and give examples.
29. What is the marginal tax rate on a lump-sum tax? How is this related to the efficiency of the tax?
30. What is meant by the efficiency of a tax system and what can make a tax system inefficient?
31. Make a table of Production Function of firm and with graph explain Total Costs of this firm.
32. Define the economies of scale and diseconomies of scale. Explain why the might arise.
33. What is the Revenue of Competitive Firm? Draw a table and explain in a case of a competitive firm – total, average and marginal revenue.
34. How Competitive Firms increase their profit? Explain in case of one firm.
35. Suppose that Firm X aims to maximize its profit. Analyze relationship between Marginal-Cost Curve and Firm’s Supply Decision.
36. Explain with graph the Firm’s Short - Run Shut Down Decision.
37. How changes the Long - Run Decision of Competitive Firm. Explain with graph this firm’s supply in the Long - Run.
38. In the long run with free entry and exit, is the price in a market equal to marginal cost, average total cost, both, or neither? Explain with a diagram.
39. What are the important conditions for Perfect Competition? Discuss analytically and make comparisons of two different cases: perfect and imperfect competition.
40. Explain with graph what is the profit of Monopoly. What are the main determinants of Monopoly’s profit?
41. Suppose the government is considering extending the length of a patent from 20 years to 30 years. How would this change each of the following?

a. The incentive to invent new products

b. The length of time during which consumers have to pay higher prices

1. Explain with graph the Profit Maximization of Monopoly.
2. What are the three reasons that a market might have a monopoly? Give two examples of monopolies and explain the reason for each.
3. Analytically discuss the results of Monopoly for countries’ economy. Which policies should governments pursue against Monopolies?
4. Draw a diagram of the long-run equilibrium in a monopolistically competitive market. How is price related to average total cost? How is price related to marginal cost?
5. Explain with graph how Monopolistic Competitor acts in the Short – Run.
6. Explain with graph how Monopolistic Competitor acts in the Long – Run.
7. How might advertising make markets less competitive? How might it make markets more competitive?
8. Classify the following markets as perfectly competitive, monopolistic, or monopolistically competitive, and explain your answers.
9. wooden no. 2 pencils
10. copper
11. local electricity service
12. peanut butter
13. lipstick
14. Explain how the wage can adjust to balance the supply and demand for labor while simultaneously equaling the value of the marginal product of labor.
15. Last two years the price of oil in the World Market decreased. Analyze different decisions of OPEC members according to the changes in World Oil Market.
16. Analytically and critically discuss economic development policies of developing countries that aims to transform their economies to Market Economy and to gain perfect competition. Take one real country case.
17. Give two examples other than oligopoly that show how the prisoners’ dilemma helps to explain behavior.
18. If the population of the United States suddenly grew because of a large wave of immigration, what would happen to wages? What would happen to the rents earned by the owners of land and capital?
19. Last years OPEC has had varied success in forming and maintaining its cartel agreements. Explain briefly how the following factors may contribute to the difficulty of forming or maintaining its price and output agreements:
20. New oil fields are discovered and nonmembers of OPEC undertake increased drilling in the Gulf of Mexico and the North Sea.
21. Different OPEC countries possess oil reserves of different sulfur content.
22. Cars powered by hydrogen are developed.