

Managerial Economics-I Sample Exam Questions

Instructions:

This document contains five questions from previous mid-term exams of Managerial Economics, and is intended as a sample of the content and level of difficulty to be expected in the exam of the course Managerial Economics-I.

Answers and illustration of analyses are provided for these questions.

The instructions page of the mid-term exam for Managerial Economics in 2013 is also provided as a guideline of the number of questions and time allowed to be expected in the exam of the course Managerial Economics-I.

It is important to note that the actual exam of the course Managerial Economics-I in 2014 may differ in the number of questions and the time allowed to complete the exam, and the concepts/methods that appear in this document do not represent the full range that may be tested.

Midterm Exam

IMBA 2013

November 4, 2013

Student Number: _____ Name: _____.

Instructions:

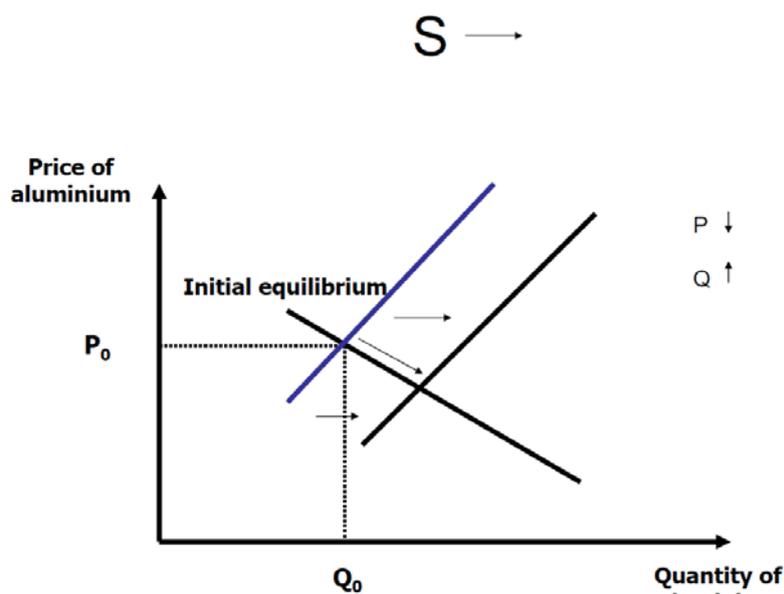
1. This is a closed-book and individual exam.
 2. You should write your student number and name in the space provided above.
 3. There are 30 questions and you have 120 minutes.
 4. Each question has only one correct answer. (If several answers seem possible to you, choose the best one).
 5. You should write the letter of your choice (a, b, c, or d) clearly in the box before the relevant question.
 6. A correct answer is worth 1 point. No answer or a wrong answer is worth 0 point.
 7. If you change your mind on an answer, please completely erase or cross out your old answer, and make it clear what your final answer is. If it is not clear what your answer is, you will receive 0 point for that question.
 8. Although all questions count the same, they are not all equally difficult. Make sure that you leave enough time to attempt all questions, so that you do not miss out on whichever ones that are easier for you.
 9. You should make standard assumptions throughout, unless the question indicates otherwise. (Thus, firms maximize profits, output is infinitely divisible, etc...). You should make the appropriate *ceteris paribus* (everything else equal) assumptions.
 10. It is forbidden to use mobile phones, laptops, ipads or calculators during the exam.
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Please do not turn this page over until you are instructed to do so.

Sample Midterm

- 1) Engineers have just discovered a more efficient way to produce aluminium that decreases the cost of production. Assuming that the world aluminium market is perfectly competitive, we expect (*ceteris paribus*) that (in the short run) this will:
1. lead to higher price and lower sold quantity of aluminium
 2. lead to a higher price and higher sold quantity of aluminium
 3. lead to a lower price and higher sold quantity of aluminium
 4. lead to a lower price and lower sold quantity of aluminium

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Answer: 3. lead to a lower price and higher sold quantity of aluminium

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Sample Midterm

2) A profit-maximizing firm operating in conditions of perfect competition and is producing a daily output such that its total revenue is £5,000. The firm's average cost is £8, its marginal cost is £10, and its average variable cost is £5. Its daily output is:

- a) 200 units.
- b) 500 units.]
- c) 625 units.
- d) 1000 units.

For a firm in a competitive market $P=MC$, so if $p=10$ and revenue 5000, $q=500$.

Answer: b) 500 units

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Sample Midterm

3) Firm owned by investor (not involved in day to day management) who invested £500,000
£ profit: £150,000/year

Best alternative: 12% in portfolio of stocks and bonds, i.e. would have had 560.000 end of year

What is the economic profit?

Answer: $150-500 \times 12\% = \text{£}90$

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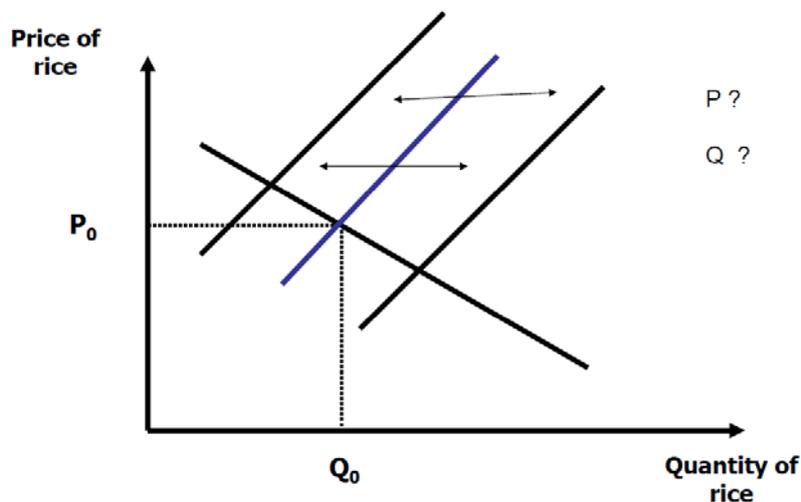
Sample Midterm

4) Vietnam is a large rice producer. The market has recently been affected by two events: (i) Urban growth has decreased the amount of land available for growing rice (ii) The state has increased its subsidies to rice producers. Assuming that the world market for rice is perfectly competitive, it is reasonable to predict (*ceteris paribus*) that (in the short run):

- 1.the quantity of rice sold will increase and the price will also increase
- 2.the quantity of rice sold will increase and the price will decrease
- 3.the quantity of rice sold will decrease and the effect on price will be ambiguous
- 4.cannot tell from the information provided

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Two shocks: i) $S \leftarrow$ ii) $S \rightarrow$



Answer: 4. cannot tell from the information provided

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Sample Midterm

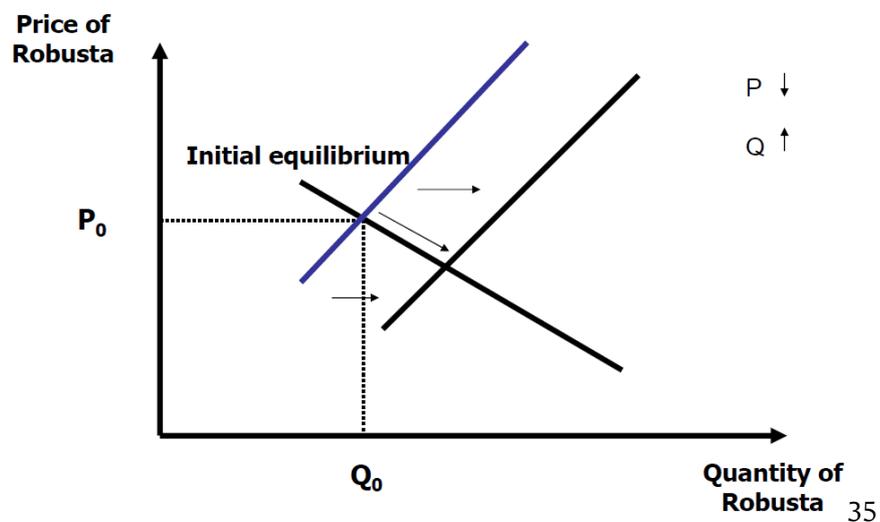
5) Two types of coffee beans “Arabica” and “Robusta” are substitutes. Following a government incentive program, the number of plantations of Robusta beans in Vietnam increases.

What is the effect in the market for Arabica beans?

- a) The price and quantity both increase.
- b) The price and quantity both decrease.
- c) The price increases, the quantity decreases.
- d) The price decreases, the quantity increases.

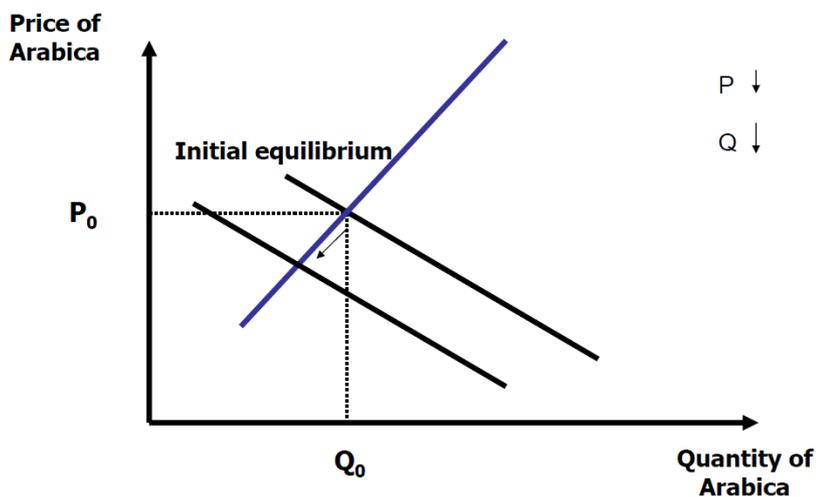
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Two markets:
Robusta S →



Two markets: Arabica D

← Because price of
A substitute went down



Answer: b) The price and quantity both decrease

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