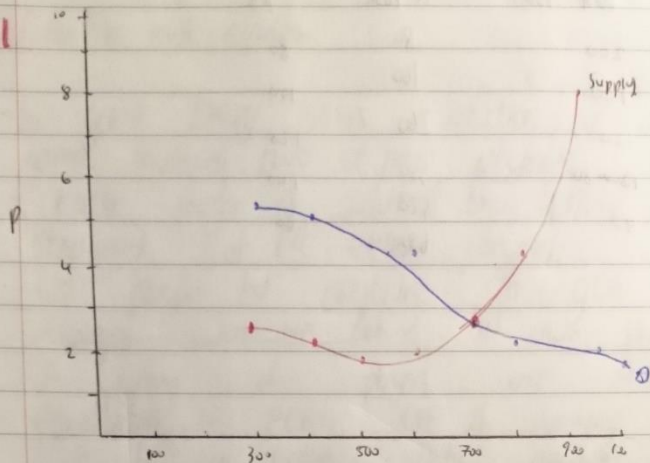2012 econ

Q1

a) When supply and demand intersect price 2.91 q coming 700

b) Output is 700 units at equilibrium
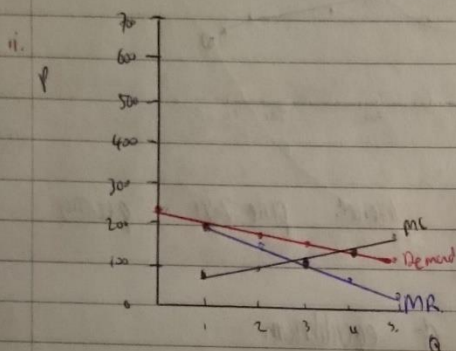
c) Each firm sells 7 Shoothes 700÷100 = 7 each

d) $(P - ATC) \times Q$
$(2.91 - 4.34) \times 700$ = -1001 loss ÷ 10 = each firm loses 10.01 ew

$TR - TC$

2.

total revenue	marginal revenue	TC cost	MC
0		80	
	200		80
200		160	
	160		100
360		260	
	120		120
480		380	
	Marginal 80		140
560		520	
	40		160
600		680	

ii.

iii. Profit maximised at MR = MC

$$MR = MC = £120 \text{ at 3 rides per hour}$$

Profit TR - TC $= 160 \times 3 - 380$

$480 - 380 = £100 \text{ profit}$

iv. Consumer surplus is the monetary gain obtained by consumers consumed because they are able to purchase a product for a price that is less than the higher price that they would be willing to pay

$= \frac{1}{2}(3)(60) = £90$

3c - Also known as a duopoly
- Perfect substitues for each other
- Two strategies to pursue   1. Comply
- four outcomes: 1. Both comply   2. Cheat
              2. Both cheat
              3. A comply B cheats
              4. B comply A cheat
- Agree to fix output and push up price
- Find [reminded] in prisoners dilehma to cheat/comply

- Regardless of Airlngus decision, it is in best interest of
  Ryan or to cheat.
      If aer lngus cheats both get 0 extra
      If aer lng comply ryan can make prft

  Same for aer lngus

- Nash equilibrium is that both firms cheat.

Economics 2012

Q3a) Define a nash equilibrium

- In game theory it is a solution of a non-cooperative game involving two or more players
- Each player is assumed to know the equilibrium strategies of the other players
- No player has anything to gain by changing strategies while the other his own strategy unchang
- A group of players are in a nash equilibrium if each one is making the best decision that he can, taking into account the decisions of others

b)   A strategy
                    confess   Deny

B strategy   confess

              Deny
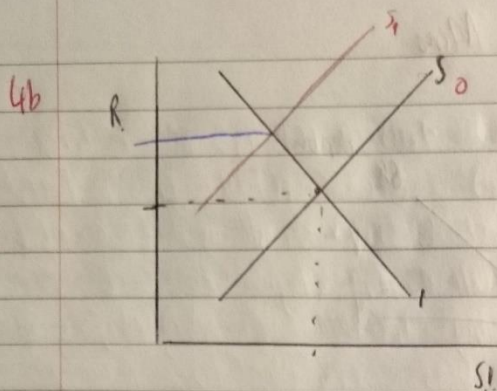
- From A's point of view. If B confess best action is confess
  If B denys best action is to confess

- From B's point of view. If A confess best action is confess
  If A deny, action is confess

- Because each player's best action is to confess each does confess, and get 3-year term.
  This is the nash equilibrium of the game
- Bad outcome because they could get a 2 year or less term instead

4b

1. real interest rate would rise a) the supply of savings will
   decrease because of budget defiat.
   - Increased demand — for savings decreased demand but
                                        higher rate

2. level of investment - level on investment decreased with greater
   demand for investment Invest has derailed

3. Value of dollar - Higher interest rates could us dollar
      to apprecie as foreign investment invested are attracted to U.S capital

4. Current account balance - it could be negative depending on
   how large the budget deficit and 'exports - imports
         export less, fall in balance

5. U.S net foreign assets - will decrease in value as the U.S
   budget is in deficit and seems weak
         current account decreased
            U.S net forng asses drops

Econ 2012.

Q5 a). $M \cdot U = PY$ Quantity theory of money

money (velocity) = Price (quantity)

growth (money) + growth (v) = $G_p + G_y$

assuming growth of velocity is zero

Growth price = Growth money − Growth output

When Gm is greater than growth in output
inflation occurs. Therefore money growth is
higher or higher inflation also output growth
is constant

—highest in US − 1980 (money growth)
—highest Japan = 1975

ii) PPP says Price (good in 1) = $\dfrac{\text{Price (good in 2)}}{\text{exchange rate}}$

$$P = \frac{P^*}{e}$$

exchange rate adjusts until this equation holds

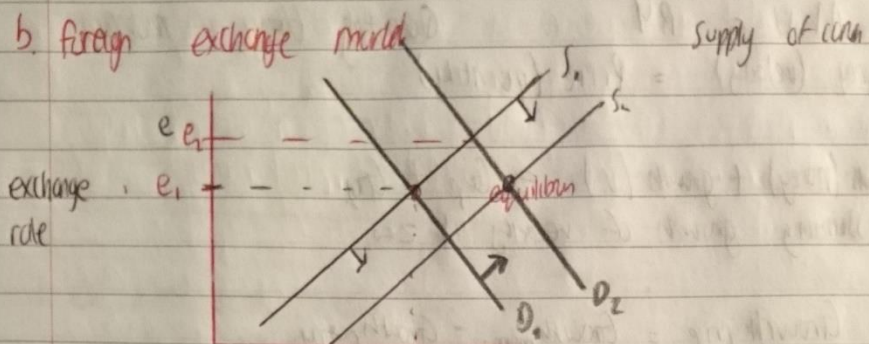i Nominal − number of units of the domestic currency that can buy one
unit of a foreign currency decreased slightly or remained
the same over the paced period in 1980

ii. Real → Started off high with bigger gap in inflation
but dropped as US inflation dropped and Japan inflation
rose.

i. Nominal = e = US dollar stronger than yen

Real = $\dfrac{P}{P^*}$ real interest rate adjusts until $P = \dfrac{P^*}{e}$

b. foreign exchange market   Supply of curn
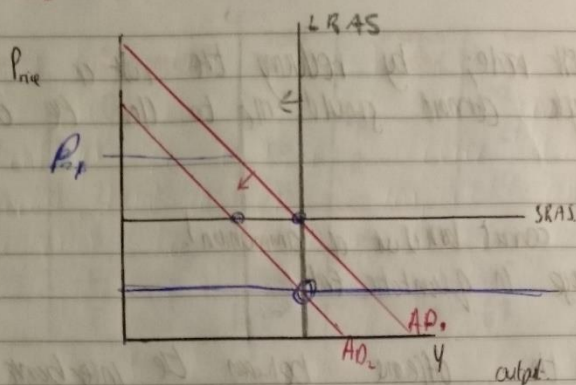

exchange e_2
rate e_1

i. Demand increase - represented by shift rightward in Demand curve
              equilibrium now e_2

ii. Central bank would print more of domestic currency
    to increase supply and retain fixed exchange rd
    Equilibrium now as before.

Econ 2012

Q6a

Price

LRAS

P_2

SRAS

AP.

AD.

Y   output.

i. Decrease in aggregate demand

ii. Permanent income hypothesis: People will adjust their spending in comparison to their long run income. In this case long run income has dropped so spending will decrease to compensate

Keynesian rather than prices adjusting output adjusted instead According to theory prices are "sticky" too yed to change equilibrium
i) demand -determined.

iii. The economy is now producing below potential. With a lower demand prices will drop to compensate People have less money to spend and therefore less taxes are taken in.

iv. LRAS will shift leftward to meet AD LRAS fall do to a large fall in consumption demand and a contraction in the money supply Reduction in SRAS
Decreased spending = fall in demand.

v. Taylor rule $i^* = y + r + 0.5(\pi - \pi^*) + .5(y - y_n)$
$y = $ consumption r inflation π^* inflation target

If output is below potential $(y - y_n < 0)$ then the Taylor rule dictates that the central bank should

lower the interest rate; by reducing the cost of
borrowing, aggregate demand should rise to close the output
gap.

If i=0, the central bank is out of ammunition!
It must engage in quantative easing
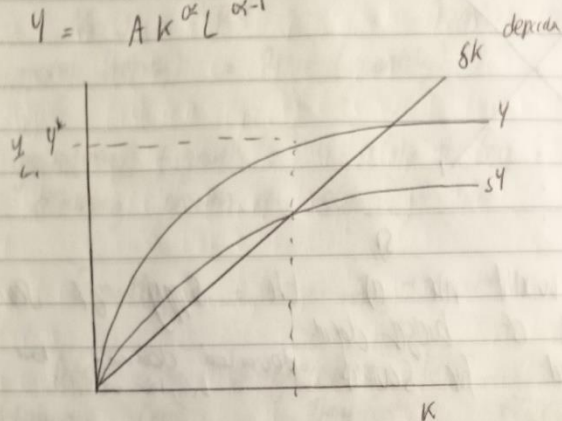
TED Spread is the difference between the interbank rate
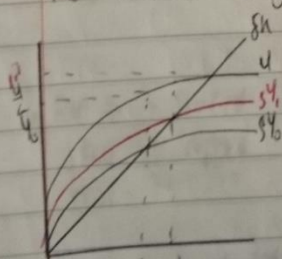and the rate on risk free short run bond

2012 MCG

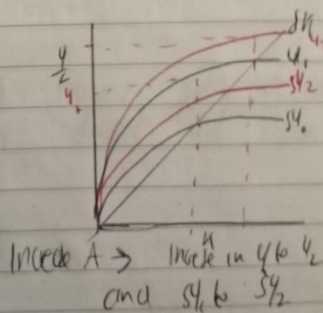|					
1	B	21	D	41	?
2	D	22	B	42	A
3	A	23	C	43	?
4	C	24	A	44	?
5	C	25	C	45	C
6	D	26	A	46	B
7	D	27	A	47	C
8	A	28	A	48	A
9	C	29	?	49	D
10	D?	30	A	50	A
11	A?	31	B		
12	A	32	B		
13	C	33	C		
14	A	34	E?		
15	D	35	B		
16	A	36	A		
17	A	37	B		
18	D	38	C		
19	A	39	D		
20	?	40	D?		

2012   economics   Micro

Q4 a. $Y = A k^\alpha L^{\alpha-1}$

- Growth rate is attributed to A - Total factor productivity
- In developed countries they have already been through all the technological advances and are reaching their steady state Y^*
- With a higher output, a greater amount of money / saved resulting in an increase in GDP per capita

- These countries with higher growth rates are far from their steady state
- This is one reason why they grow so quickly.
- The other reason is an increase in A.
- These countries are taking advantage of technology to aid growth
- The reason why gdp is low is because output is still low

- Increase (saving)
- GDp rise) from Y_0 to Y_1.

Increase A → Increase in Y to Y_2 and sY_1 to sY_2