

## PART1

MC1) **D** (11,000)

MC2) **B** (may be higher or lower for young people from higher income families compared to low income families, as while young people from higher income families are more likely to attend university, a greater fraction of young people from higher income families are already enrolled in university.)

## PART2

Q1) Property rights

A property right is often referred to as a bundle of rights. List the three rights noted in lectures.

What affects how a strong a property right is?

- right to use the good
- right to earn income from the good
- right to transfer the good to others

The strength of property right is measured by the cost and probability of success of enforcement. This depends on the government, informal social actions, and prevailing ethical and moral norms.

Q2) Economic logic

Explain the pitfalls in the following statements.

- (a) Whenever John decides to wash his car, the next day it rains. John's town is suffering from a severe drought, so he decided to wash his car and, just as he expected, the next day the thunderstorms rolled in. Obviously it rained because John washed his car.

*Post hoc, ergo propter hoc fallacy: inferring a causal relationship between two events are correlated. No correlation between car washing and rain.*

- (b) The principal of Hamilton High School found that requiring those students who were failing algebra to attend an afternoon tutoring programme resulted in a 30 percent average increase in their algebra grade. Based on this success, the principal decided to hire more tutors and require that all students must attend after-school tutoring, so everyone's algebra grades would improve.

*Selecting on the dependent variable or just an incorrect inference. What works for one group wont necessarily work for another.*

- (c) People who drive hybrid cars recycle their trash more than people who do not drive hybrids.

Therefore, recycling trash causes people to drive hybrid cars.

*No casual relationship between two variables, both predicted by some other third factor e.g environmental awareness, rather than causing each other.*

Q3) The competitive model

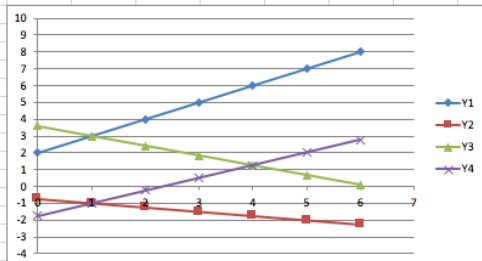
What are the essential elements of the basic competitive model?

- lots of firm with same cost structure
- homogenous product

*free entry and exit of firms  
perfect information*

Q4)

	a	b	X	Y1	Y2	Y3	Y4
$Y=2+X$	2	1	0	2	-0.75	3.58	-1.75
$Y=-0.75-0.25X$	-0.75	-0.25	1	3	-1	3.00	-1
$Y=3.5833-0.5833X$	3.5833	-0.5833	2	4	-1.25	2.42	-0.25
$Y=-1.75+0.75X$	-1.75	0.75	3	5	-1.5	1.84	0.5
			4	6	-1.75	1.25	1.25
			5	7	-2	0.67	2
			6	8	-2.25	0.09	2.75



(d) describe what would happen to the function if the intercept coefficient for each function were increased by 10% (in absolute terms, i.e. a positive intercept becomes a larger positive number and a negative intercept becomes a larger negative number).

Function 1: shifts to the left (increase)

Function 2: shifts to the left (decreases)

Function 3: shifts to the right (increase)

Function 4: shifts to the left (decreases)