(一)　Multiple Choice(60%, 5% each)

1. Identify the reasons why the quantity demanded of a product increases as the price of that product decreases.
   a. as the price declines, the real income of the consumer increases
   b. as the price of product A declines, it makes it more attractive than product B
   c. as the price declines, the consumer will always demand more on each successive price reduction
   d. a and b
   e. a and c

2. When demand elasticity is _____ in absolute value (or _____), an increase in price will result in a(n) _____ in total revenues.
   a. less than 1; elastic; increase
   b. more than 1; inelastic; decrease
   c. less than 1; elastic; decrease
   d. less than 1; inelastic; increase
   e. none of the above

3. If the marginal product of labor is 100 and the price of labor is 10, while the marginal product of capital is 200 and the price of capital is $30, then what should the firm do?
   a. The firm should use relatively more capital
   b. The firm should use relatively more labor
   c. The firm should not make any changes -they are currently efficient
   d. Using the Equimarginal Criterion, we can't determine the firm's efficiency level
   e. Both c and d

4. For a short-run cost function which of the following statements is (are) not true?
   a. The average fixed cost function is monotonically decreasing.
   b. The marginal cost function intersects the average fixed cost function where the average variable cost function is a minimum.
   c. The marginal cost function intersects the average variable cost function where the average variable cost function is a minimum.
   d. The marginal cost function intersects the average total cost function where the average total cost function is a minimum.
   e. b and c

5. In pure competition:
   a. the optimal price-output solution occurs at the point where marginal revenue is equal to price
   b. a firm's demand curve is represented by a horizontal line
   c. a firm is a price-taker since the products of every producer are perfect substitutes for the products of every other producer
   d. a and b only
   e. a, b, and c

6. A firm in pure competition would shut down when:
   a. price is less than average total cost
   b. price is less than average fixed cost
   c. price is less than marginal cost
   d. price is less than average variable cost

7. The main difference between perfect competition and monopolistic competition is:
   a. The number of sellers in the market
   b. The ease of entry and exit in the industry
   c. The degree of information about market price
   d. The degree of product differentiation
   e. Whether it is the short run or the long run

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8. The demand curve facing the firm in _____ is the same as the industry demand curve.
   a. pure competition
   b. monopolistic competition
   c. oligopoly
   d. pure monopoly
   e. none of the above

9. Factors that affect the ability of oligopolistic firms to successfully engage in cooperation include _____.
   a. number and size distribution of sellers
   b. size and frequency of orders
   c. product heterogeneity
   d. a and b only
   e. a, b, and c

10. Which of the following are not approaches to resolving the principal-agent problem?
    a. ex ante incentive alignment
    b. deferred stock options
    c. ex post governance mechanism
    d. straight salary contracts
    e. monitoring by independent outside directors

11. Patents have been defended by some on the grounds that they stimulate inventive activity. Others have argued for changes in current patent laws because:
    a. resources are misallocated by the grant of a patent monopoly
    b. patents may not be necessary to encourage inventive activity
    c. the current patent monopoly period (17 years) is too short to encourage any inventive activity.
    d. a and b only
    e. all of the above

12. Which of the following public policies has (have) the effect of restricting competition?
    a. licensing
    b. patents
    c. import quotas
    d. a and b only
    e. a, b, and c

（二）　Problem(40%, 10% each)

1. The Taiwan Tobacco Company feels that it is faced with the following segmented demand function for its cigarettes:

$$P = \begin{cases} 10 - .10Q & \text{When } 0 \leq Q \leq 20 \\ 12 - .20Q & \text{When } Q > 20 \end{cases}$$

where Q is the number of cartons sold and P is the price per carton.

(a) Why is such a segmented demand function likely to exist? What type of industry structure is indicated by this relationship?

(b) Determine marginal revenue function.

(c) Given that total cost function (including a "normal" return to the owners) is

$TC_1 = 80 + 2.6Q + .05Q^2$

determine profit maximizing price and output level.

(d) Given that total cost function increases to

$TC_2 = 90 + 3.4Q + .05Q^2$

What is their profit maximizing price and output level?

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