

1. (1) The X-corporation produces a good (called X) that is a normal good. Its competitor, Y-Corp., make a substitute good that it markets under the name "Y." Good Y is an inferior good. How will the demand for good X and Y change if consumer incomes decrease? (5%) How will the demand for good X change if the price of good Y decreases? (5%)
(2) During the beginning of the 21st century, the growth in computer sales declined for the first time in almost two decades. As a result, PC makers dramatically reduced their orders of computer chips from Intel and other vendors. Explain why computer manufactures such as Dell are likely to write relatively short contracts for computer chips. (10%)
2. Suppose that three industries have the same market demand and identical cost curves. Industry A is perfectly competitive, industry B is a single-price monopoly, and industry C is a monopoly able to perfectly discriminate.
(1) In the long run, in which industry structure or structures is the total economic profit largest? (5%) The smallest? (5%)
(2) Which industry structure or structures are allocatively efficient? (5%) Why? (5%)
3. Suppose Toyota and Honda must decide whether to make a new breed of side impact airbags standard equipment on all models. Side-impact airbags raise the price of each automobile by \$500. If both firms make side-impact airbags standard equipment, each company will earn profits of \$1.5 billion. If neither company adopts the side-impact airbag technology, each company will earn \$0.5 billion (due to lost sales to other automakers). If one company adopts the technology as standard equipment and the other does not, the adopting company will earn a profit of \$2 billion and the other will lose \$1 billion.
(1) Construct the payoff matrix. (10%)
(2) If you were a decision maker at Honda, would you make side-impact airbags standard equipment? (5%) Explain. (5%)
4. True (T) / False (F) / Uncertain (U) and Explain. The score depends on the degree of correctness for reasons.
(1) At full employment, there is no unemployment. (5%)
(2) When an individual's consumption demand curve shift rightward, the person's saving supply curve shift rightward. (5%)
(3) When the AE (Aggregate Expenditure) curve shifts downward, the AD (Aggregate Demand) curve shifts leftward. (5%)
(4) In the long run, expansionary fiscal policy increases real GDP. (5%)
(5) In modern economies, credit cards are money. (5%)
(6) The Phillips curve shows that, if the inflation rate rises, the unemployment rate falls. (5%)
(7) According to the new classical rational expectations theory, a decrease in aggregated demand causes a recession. (5%)
(8) A nation may have both an absolute advantage in the production of all goods and services and a comparative advantage in the production of all goods and services. (5%)