EGT2: IIA
ENGINEERING TRIPOS PART IIA

Friday 29 April 2016   9.30 to 11.00

Module 3E1

BUSINESS ECONOMICS

*Answer not more than **two** questions.*

All questions carry the same number of marks.

*The **approximate** percentage of marks allocated to each part of a question is indicated in the right margin.*

*Write your candidate number **not** your name on the cover sheet.*

STATIONARY REQUIREMENTS
Single-sided script paper

SPECIAL REQUIREMENTS TO BE SUPPLIED FOR THIS EXAM
CUED approved calculator allowed

10 minutes reading time is allowed for this paper.

You may not start to read the questions printed on the subsequent pages of this question paper until instructed to do so.

1 (a) Explain and illustrate by means of an appropriate diagram how a firm's cost minimisation problem differs in the long run relative to the short run. [20%]

(b) Illustrate a game of strategy representing a market where one player has a first mover advantage. Provide two empirical examples of market outcomes that may reflect first mover advantages. [25%]

(c) The Coase Theorem states that if property rights are well defined and there are no transaction costs, bargaining over externalities will achieve an efficient outcome. Explain the theorem and discuss two empirical examples of inefficient market outcomes due to externalities. [25%]

(d) Explain in detail the role of the interest rate in the macroeconomy. [30%]

2 (a) What are the main determinants of market structure? [20%]

(b) Define a 'Giffen good' and illustrate your definition by means of an appropriate diagram. [20%]

(c) Compare and contrast the Cournot and the Stackelberg models of oligopoly. Discuss the implications of their market outcomes for producers and consumers. [30%]

(d) Identify and discuss the advantages and disadvantages of the euro. [30%]

3   (a)   Demonstrate that firm profits are optimised at the level of production where marginal costs are equal to marginal revenues.   [20%]

(b)   What factors would you take into consideration if you were making a decision to ban or allow a proposed merger? Explain your answer.   [25%]

(c)   Discuss the problem of intertemporal choice in the macroeconomic theory of consumption. Present two ways in which this problem can be addressed to explain and predict aggregate consumption.   [25%]

(d)   Identify three policy measures a government might introduce to increase exports. Discuss their relative advantages and disadvantages.   [30%]

END OF PAPER

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