

EGT2  
ENGINEERING TRIPOS PART IIA

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Tuesday 2 May 2017      14.00 to 15.30

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**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.*

**STATIONERY 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 markets clear (i.e. reach an equilibrium point) when there exists a surplus situation for a product, and also when there exists a shortage situation for a product. [20%]

(b) An important part of economic decision making is *profit maximisation*. Explain the basics relating to this economic objective and illustrate, by means of an appropriate diagram and equations the profit maximization condition for a firm. [25%]

(c) Game theory can be defined in the context of the strategic interactions amongst different economic decision-makers. Explain in detail the concept of the *Nash Equilibrium* and provide an example that represents it. [25%]

(d) Explain in details the *Circular Flow of Income* and how it represents the working of the macro economy. [30%]

2 (a) Explain the main characteristics of a perfectly competitive market, and why it is used as a benchmark for analysing the characteristics of other market structures. [20%]

(b) What is an ‘inferior good’? Illustrate your definition by means of an appropriate diagram. [20%]

(c) What is a dominant strategy in game theory? Explain and illustrate by means of a payoff matrix how a dominant strategy is consistent with the concept of rationality in economics. [30%]

(d) Identify and discuss the advantages and disadvantages of having a single currency in a trading block. Use the Euro as an example. [30%]

3 (a) What are the common features of an oligopolistic market? Explain the different models that apply to oligopoly. [25%]

(b) Explain the '*Pareto Criterion*'. Illustrate it by means of an appropriate diagram that describes the concept of an efficient goods' allocation and its impact on the utility of individuals. [25%]

(c) Assume a *closed economy* model developed by J.M. Keynes, and illustrate, by means of appropriate diagrams how equilibrium income is achieved. Also explain the government purchases multiplier. [25%]

(d) Explain three different measures that the government can introduce to increase exports. Discuss the relative advantages and disadvantages of each measure. [25%]

**END OF PAPER**

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