

PART I:

Multiple-choice questions (5 points each)

1. Mike's income is \$450 per month. He spends all of it on books (B) and CDs (C). Books cost \$10 and CD's cost \$15. His preferences correspond to the utility function $U(B,C) = B \times C$. For that utility function, the marginal benefit of books is C and the marginal benefit of CDs is B. How many books and how many CDs will he purchase in a month?
 - A. 10 CDs and 30 Books
 - B. 30 CDs and 10 Books
 - C. 20 CDs and 15 Books
 - D. 15 CDs and 30 Books
2. When the price elasticity of demand is large in magnitude, a _____ increase in the price leads to a _____ reduction in the amount purchased and the demand curve is relatively _____.
 - A. Slight; substantial; steep
 - B. Slight; slight; flat
 - C. Large; slight; steep
 - D. Slight; substantial; flat
3. Suppose a manager is deciding how to allocate workers between two plants. The marginal product of labor in plant 1 is 10 units of output. The marginal product of labor in plant 2 is 14 units of labor. What should the manager do?
 - A. Reallocate workers from plant 1 to plant 2 because MP_L is greater in plant 1 than in plant 2
 - B. Reallocate workers from plant 1 to plant 2 because MP_L is greater in plant 1 than in plant 1
 - C. Reallocate workers from plant 2 to plant 1 because MP_L is greater in plant 1 than in plant 2
 - D. Reallocate workers from plant 2 to plant 1 because MP_L is greater in plant 2 than in plant 1
4. Assume Brandon's benefit function for water is $S(W) = \sqrt{W}$ and he consumes water both in droughts, W_D and in the rainy season, W_R . Assume his water bundle is $W_D = 400$ and $W_R = 100$ and the probability of drought is 0.75. Expected water consumption is
 - A. 500
 - B. 250
 - C. 325
 - D. 175

5. Brandon's risk premium given the information in problem 5 is
A. 250
B. 325
C. 17.5
D. 18.75
6. Suppose milk and cereal are compliments and the demand for milk is $Q_m^d = 40 - 6P_m - 2P_c$, where Q_m^d stands for millions of gallons of milk demanded, P_m stands for the price of milk and P_c stands for the price of cereal. The supply of milk is $Q_m^s = 6P_m - 8$, where Q_m^s stands for millions of gallons of milk supplied. The demand and supply of cereal are $Q_c^d = 90 - 5P_c - P_m$ and $Q_c^s = 5P_c - 10$, respectively, where Q_c^d stands for millions of boxes of cereal demanded and Q_c^s stands for millions of boxes of cereal supplied. Suppose the government imposes a \$2.00 per gallon tax on milk. The new general equilibrium price of cereal is
A. \$9.66
B. \$9.76
C. \$7.76
D. \$11.76
7. The Coase Theorem states that
A. If bargaining is difficult, then regardless of how property rights are assigned, voluntary agreements between parties will remedy the market failures associated with externalities and restore economic efficiency
B. If bargaining is frictionless, then the initial assignment of property rights determines the market failures associated by externalities and voluntary agreements between private parties are useless
C. If bargaining is frictionless, then regardless of how property rights are assigned, voluntary agreements between private parties will remedy the market failures associated with externalities and restore economic efficiency
D. If bargaining is frictionless, market failures must be remedied by government intervention
8. Your neighbor likes to blast 1970's rock music and the louder the better. The loud music imposes a cost on you because it disrupts your study of economics. Let D stand for the volume of his music in decibels, B for his benefits and C for your costs, where B and C are in dollars. For any given volume, D, your neighbor's benefit is $B = 0.63D - 0.002D^2$ and your cost is $C = 0.06D + 0.001D^2$. What is your marginal cost at the socially efficient noise level?
A. \$0.75
B. \$0.29
C. \$0.24
D. \$0.25

Essay question (10 points)

Evaluate the economic impact of lifting the ban on US beef containing residue of the leanness enhancing drug in Taiwan.

PART II:

i. Multiple Choices (單選題 15 題，每題 2 分)：(30%)

1. In Taiwan economy today, nominal GDP per capita, compared with its level in 2000, is about: (A) the same. (B) 50 percent higher. (C) twice as high. (D) three times as high. (E) 50 percent lower.
2. When a firm sells a product out of inventory to a household, GDP _____ whereby investment expenditures _____ and consumption expenditures _____. (A) increases; are not changed; increase (B) is not changed; remain unchanged; remain unchanged (C) is not changed, decrease; increase (D) increases; remain unchanged (E) is not changed; remain unchanged; increase
3. In a neoclassical economy, if consumption is a function of the interest rate, then a \$10 billion rise in government spending would: (A) crowd out exactly \$10 billion of investment. (B) crowd out between zero and \$10 billion of investment. (C) no longer crowd out any investment. (D) crowd out more than \$10 billion of investment. (E) The answers above may all be correct, depending on the size of the marginal propensity to consume.
4. According to the quantity theory of money, if money increases by 10 percent, velocity decreases by 4 percent, and the change in real GDP increases by 3 percent, then the price level must: (A) increase by 10 percent. (B) increase by 11 percent. (C) increase by 3 percent. (D) be 3 percent. (E) be 11 percent.
5. An appreciation of the real exchange rate in a small open economy with perfect capital mobility could be the result of the following *except*: (A) a domestic tax cut. (B) an increase in government spending. (C) an decrease in the world interest rate. (D) the expiration of an investment tax-credit provision. (E) the implementation of a protection trade policy.
6. Open-market operations change the _____; changes in reserve requirements change the _____; and changes in the discount rate change the _____. (A) monetary base; money multiplier; monetary base (B) money multiplier; money multiplier; money multiplier (C) monetary base; money base; monetary base (D) money multiplier; monetary base; money multiplier (E) money base; monetary base; money multiplier
7. In the Keynesian-cross model, fiscal policy has a multiplied effect on income because fiscal policy: (A) increases the amount of money in the economy. (B) changes income, which changes consumption, which further changes income. (C) increases the marginal propensity to consume. (D) is government spending and, therefore, more powerful than private spending. (E) changes the interest rate.
8. One argument in favor of tax cuts over spending on infrastructure to increase production is that: (A) tax cuts increase the marginal propensity to consume by a larger amount than spending on infrastructure. (B) tax cuts increase planned spending, but spending on infrastructure offsets private spending. (C) the tax multiplier is larger than the government spending multiplier. (D) it takes longer to implement spending on infrastructure than to implement tax cuts. (E) tax cuts increase consumption, but spending on infrastructure crowds out investment.
9. According to the theory of liquidity preference, tightening the money supply will _____ nominal interest rates in the short run, and according to the Fisher effect, tightening the money supply will _____ nominal interest rates in the long run. (A) increase; have no effect on (B) increase; increase (C) increase; decrease (D) decrease; decrease (E) decrease; increase
10. If Congress passed a tax increase at the request of the president to reduce the budget deficit, but the central bank prevents income from falling by conducting an appropriate monetary policy, then: (A) both consumption and investment remain unchanged. (B) consumption rises but investment falls. (C) investment rises but consumption falls. (D) both consumption and investment fall. (E) investment rises but consumption remain unchanged.

11. If the central bank announced that it would fix the exchange rate at 30 TWD (Taiwan dollar) per U.S. dollar, but with the current money supply the equilibrium exchange rate was 28 TWD per dollar, then the central bank would: (A) lower the money supply by selling foreign currency from reserves. (B) lower the money supply by buying foreign currency. (C) raise the money supply by selling foreign currency from reserves. (D) raise the money supply by buying foreign currency. (E) None of the above is correct.
12. Monetary policy is linked to fiscal policy when government spending is financed by: (A) printing money. (B) taxes. (C) borrowing from private sectors. (D) borrowing from foreigners. (E) subsidization.
13. Country risk included in the risk premium in interest rates refers to the: (A) possibility that loans in some countries may not be repaid because of political instability. (B) additional costs incurred when loans are made in currencies other than the domestic currency. (C) expectation that the exchange rate may change in the future. (D) potential change in the terms of trade between countries. (E) unanticipated changes in purchasing power for foreign products.
14. Which of the following would be evidence that a country with a fixed exchange rate has an undervalued currency? (A) The central bank's foreign-currency reserves are increasing. (B) The central bank's foreign-currency reserves are decreasing. (C) The government has a budget surplus. (D) The government has a budget deficit. (E) The trade surplus is increasing.
15. All of the following are possible reasons for the declination of the natural rate of unemployment rate *except*: (A) stringent minimum-wage legislation. (B) competition for jobs from immigrants. (C) worker anxiety over the fear of losing jobs. (D) the invention of the internet and the development of Web-based job search sites. (E) weak labor unions.

ii. Essay Questions (問答題 3 題) : (20%)

1. Explain why a steady creeping inflation is less costly than a deflation. What do you think the government can do to reduce the costs of inflation? (7%)
2. On January 1, 1999, a new currency – the euro – was introduced as the single currency of the 11 (now 17) countries of the European Monetary Union. Describe the benefits and costs of the single-currency regime in economy. (6%)
3. What are the causes and consequences for asset-price bubbles in economy? How do you think the problem will likely be solved? (7%)