

Final exam - sample

NAME: _____

You have 90 minutes to complete this setup. The exam is worth 100 points in total. Exact amount of points is indicated for each exercise.

1. **(10 points)** Explain why taxation leads to deadweight loss (you can illustrate it on a graph, but you do not have to if your explanation is clear enough).
2. **(10 points)** Explain what the Coase theorem is about.
3. **(15 points)** The equilibrium price of coffee mugs rose sharply last month, but the equilibrium quantity was the same as ever. Three people tried to explain the situation. Which explanations could be right? Explain your logic.

BILLY: Demand increased, but supply was totally inelastic.

MARIAN: Supply increased, but so did demand.

VALERIE: Supply decreased, but demand was totally inelastic.

4. **(15 points)** Two firms are competing in the market, each firm's profit depends on whether they set high or low price:

		Firm 2	
		Low price	High price
Firm 1	Low price	2 , 1	7 , 0
	High price	0 , 2	6 , 6

- (a) What is the Nash equilibrium of this game?
- (b) Which out of the three models of oligopoly (Cournot, Stackelberg or Bertrand) describes the best this situation (explain why)?
- (c) If the two firms could collude and agree on how to split the total profits, what outcome would they pick?
- (d) Why is the collusion not likely to happen?

5. **(25 points)** Read the attached article and answer the following questions:
- (a) How is the pension reform in UK going to affect the housing market?
 - (b) The article compares two markets: a market with cars and the housing market. How do they differ in terms of the elasticity of supply?
 - (c) Using a supply and demand diagram, represent what is happening according to this sentence of the article: “If you increase the number of people who can afford to buy homes at current prices, then the main effect will be to raise prices high again to make housing about as unaffordable as it was before.”
 - (d) In a separate supply and demand diagram, show why this is not happening in the market with cars - make sure to stress the difference between the car and housing supply curves described in part (b).
 - (e) In an additional supply and demand diagram, explain why if more land for building is freed up, housing prices do not have to increase that much.
6. **(25 points)** Read the attached article and answer the following questions:
- (a) What are the two opposing views that are presented in the article?
 - (b) Why there is little competition in the broadband market?
 - (c) What are the main arguments in favor of regulating the broadband market?
 - (d) What are the main arguments against regulating the broadband market?