



**THE UNIVERSITY OF THE WEST INDIES
FIVE ISLANDS CAMPUS**

Semester II

Examinations of APRIL/MAY 2023

Course Code: ECON2001

Course Title: Intermediate Microeconomics II

Date of Assessment: Monday April 24th 2023

Time: 9:00 a.m.

Duration: Two (2) Hours

INSTRUCTIONS TO CANDIDATES:

This paper has 5 pages and 6 questions.

YOU ARE REQUIRED TO ANSWER 6 QUESTIONS.

THIS ASSESSMENT IS WORTH 60% OF YOUR FINAL GRADE.

ASSESSMENT DETAILS FROM INSTRUCTOR(S):

CANDIDATES ARE REQUIRED TO ANSWER ALL (6) QUESTIONS.

1. (a) What is the Coase Theorem? Under what conditions will the Coase Theorem break down? **(4 marks)**
- (b) Explain whether the following are examples of externalities:
- I. Alisha did not sleep well because her neighbor was playing loud music.
 - II. Neighbour's barking dog.
 - III. José, who is allergic to pollen, is sick from the flowers that grow in his garden. **(6 marks – 2 marks each)**

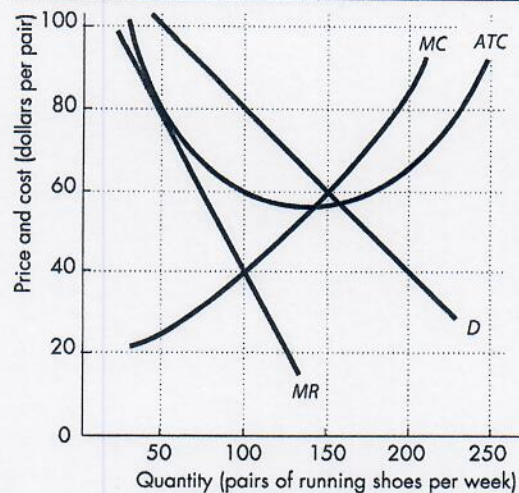
2. Quebec is the world's largest maple syrup producer, and in the spring of 2017, its production increased by 4 million pounds over the previous year to 152.2 million pounds. The Federation of Quebec Maple Syrup Producers regulates how much farmers can sell and it increased production quotas in a bid to restore market share lost to the U.S. producers in the past decade. Quebec farmers oppose the federation's quota on output, and some producers exceed their quotas and sell on a black market. U.S. producers increased their share of the world market with a 23 percent increase in output in 2016.

Source: *Bloomberg News*, June 1, 2017

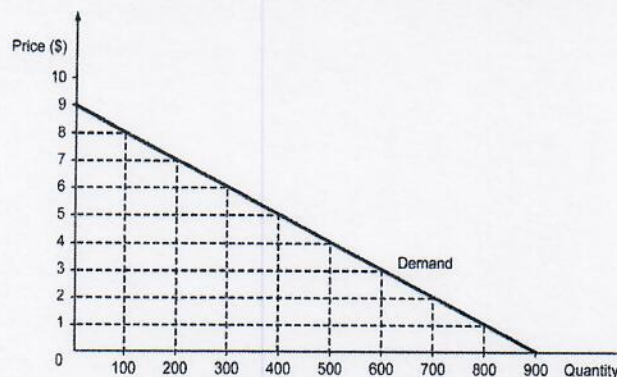
- (a) If the Quebec and U.S. maple syrup producers become a profit-maximizing colluding oligopoly, explain how they would influence the price of maple syrup. **(4 marks)**
- (b) Draw a graph to illustrate your answer to (a). **(2 marks)**
- (c) Why is it difficult for the Quebec cartel to act like a monopoly? Use the ideas of game theory to explain. **(4 marks)**

3. The following Figure shows the situation facing Flight Inc., a producer of running shoes.

FIGURE 14.1
Problems 5 to 8



- (a) What quantity does Flight produce, what price does it charge, and what is its economic profit? **(4 marks)**
- (b) In the long run, how does Flight change its price and the quantity it produces? What happens to the market output of running shoes? **(3 marks)**
- (c) Is the market for running shoes efficient or inefficient in the long run? Explain your answer. **(3 marks)**
4. The following figure shows the demand curve faced by a monopolist.

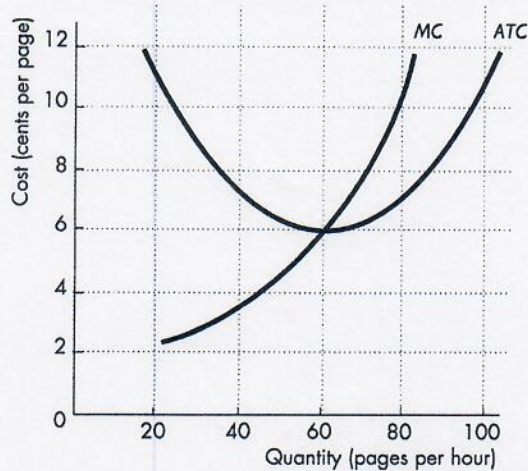


- (a) Calculate the quantity effect and price effect of a price cut from \$6 to \$5. Estimate the change in total revenue due to the price cut. **(5 marks)**

- (b) Comment on the elasticity of the demand curve between the price range \$5 to \$6. (5 marks)

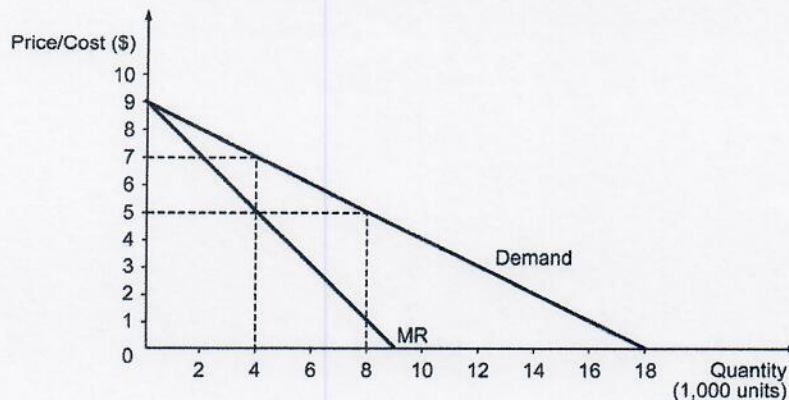
5. The following figure shows the costs of Quick Copy, one of many copy shops near campus.

FIGURE 12.1
Problem 13



If the market price of copying is 10¢ a page, calculate Quick Copy's:

- (a) Profit-maximizing output (5 marks)
- (b) Economic profit (5 marks)
6. The following figure shows the demand curve for Good X in a perfectly competitive market. Later, the government grants one of the firms the exclusive right to manufacture and sell Good X. MR represents the marginal revenue curve of the firm when it operates as a monopoly. The marginal cost of producing Good X is constant at \$5.



- (a) What is the quantity supplied when the market is perfectly competitive? What happens to the quantity supplied once the market changes to a monopoly? (3 marks)

- (b) What is the market price when the market is perfectly competitive? What is the market price when the market changes to a monopoly? **(3 marks)**
- (c) Compare the consumer surplus when the market is perfectly competitive and the consumer surplus when the market is a monopoly. Is there any producer surplus or deadweight loss in either case? If yes, then how much? **(3 marks)**

END OF QUESTION PAPER