

Matr.-Nr. _____

Name: _____

Final Exam: Principles of Economics II (5005)
Examiner: Prof. Dr. Paqué, Dr. von Auer, Prof. Dr. Wolff
Term: Winter 2002/03

No aids permitted except for English language dictionaries without any marking.

There are 25 different exercises on this exam. Make sure that this copy of the exam is complete and write your matriculation number and your name into the appropriate fields on top of this page. Work on all 25 questions. Do not mark more than one possible answer otherwise it is considered false. For every correct answer you obtain two points. For every false answer one point is subtracted. If no answer is marked you neither obtain nor lose a point. In order to pass this exam you need at least 25 points.

1. A good indicator for the productive activities within a country is

- a) the GDP deflator.
- b) nominal GDP divided by the GDP deflator.
- c) nominal GDP.

2. If the nominal interest rate is 1% and the rate of inflation equals 2% then the real interest rate is

- a) -1%.
- b) 2%.
- c) 3%.

3. In the Malthusian growth model,

- a) the equilibrium occurs when output per worker exceeds the subsistence level.
- b) the population grows as long as output per worker is smaller than the subsistence level.
- c) the population declines as long as output per worker is smaller than the subsistence level.

4. According to the neoclassical growth model, a country with a low saving rate has in equilibrium (steady state)

- a) a lower capital stock per capita than
- b) a higher capital stock per capita than
- c) the same capital stock per capita as a country with a high saving rate.

5. According to the fundamental equation of growth accounting, if output grows by 5%, labor by 4%, and capital by 2% and labor's growth gets 3 times the weight of capital's (where the weights sum up to one) then the contribution of technological change to output growth is

- a) 1.5 percentage points.
- b) 2 percentage points.
- c) 3 percentage points.

6. If one abstracts from transactions in services, investment income, and unilateral transfers, a country that exports more goods than it imports

- a) has a negative trade balance.
- b) is called a net creditor in the world financial market.
- c) is called a net debtor in the world financial market.

7. If a country is a net debtor in the world financial market then the sum of its balance on current account and balance on financial account is

- a) greater than zero.
- b) less than zero.
- c) equal to zero.

8. The purchase of a German car from a German exporter paid for with cash by an US-citizen

- a) does not affect the current account of Germany.
- b) does not affect the current account of the USA.
- c) generates a deficit in the German financial account.

9. The purchase of a bond from the US-government paid for with cash by a German citizen

- a) does not affect the current account of Germany.
- b) generates a deficit in the financial account of the USA.
- c) generates a deficit in the German financial account.

10. If the price of a bundle of tradable goods is \$20 in America while €10 in Europe, then at the current exchange rate of 2€/€ the

- a) euro is undervalued compared to its long-run value implied by PPP-theory.
- b) euro is overvalued compared to its long-run value implied by PPP-theory.
- c) value of the euro corresponds to its long-run value implied by PPP-theory.

11. According to PPP-theory, a country with a flexible exchange rate that faces a price level decrease in the rest of the world relative to its own will see its currency

- a) appreciating.
- b) depreciating.
- c) remaining at the politically desired level.

12. The gold standard established a system of

- a) fixed exchange rates.
- b) flexible exchange rates.
- c) fixed but adjustable exchange rates.

13. In a system of fixed exchange rates the central bank must

- a) abstain from any intervention in the foreign exchange market.
- b) sell foreign currency if there is excess supply of domestic currency.
- c) sell foreign currency if there is excess supply of foreign currency.

14. The closed economy multiplier is

- a) smaller than the open economy multiplier.
- b) greater than the open economy multiplier.
- c) as large as the open economy multiplier.

15. Under a fixed exchange-rate system and perfect capital mobility,

- a) monetary policy is highly effective in raising domestic income.
- b) fiscal policy is highly effective in raising domestic income.
- c) fiscal policy is ineffective in raising domestic income.

16. Under a system of flexible exchange rates and perfect capital mobility, monetary expansion at home leads to

- a) an increase of the foreign exchange reserves of the central bank.
- b) a decrease of the foreign exchange reserves of the central bank.
- c) a depreciation of the domestic currency.

17. In an open economy net exports are equal to

- a) imports of goods minus exports of goods.
- b) the difference between national saving and investment.
- c) the government budget deficit.

18. In a small open economy at full employment and with perfect capital mobility, a decrease in government expenditures

- a) increases net exports.
- b) decreases net foreign investment.
- c) raises the domestic interest rate.

19. In the short-run, the aggregate supply curve in a P-Y-diagram (P being on the vertical axis) is

- a) vertical.
- b) relatively flat.
- c) relatively steep.

20. In a P-Y-diagram (P being on the vertical axis), the classical approach to aggregate supply uses

- a) a vertical aggregate supply curve.
- b) a horizontal aggregate supply curve.
- c) a relatively flat aggregate supply curve.

21. In a P-Y-diagram (P being on the vertical axis), an increase of the production costs

- a) shifts the short-run aggregate supply curve upwards.
- b) shifts the short-run aggregate supply curve downwards.
- c) does not affect the position of the short-run aggregate supply curve.

22. A person who has no job and is permanently too ill to work is classified as

- a) being unemployed.
- b) being employed.
- c) being not in the labor force.

23. Cyclical unemployment occurs

- a) when due to a recession the overall demand for labor is low.
- b) when the demand for labor in certain sectors of the economy is low.
- c) because of the incessant movement of people between regions and jobs.

24. The short-run Phillips curve implies that in the short-run, a one-time increase in the money growth rate

- a) increases the unemployment rate.
- b) decreases real output.
- c) increases the inflation rate.

25. The long-run Phillips curve implies that in the long-run, a constant rate of money growth

- a) cannot affect the price level.
- b) cannot affect real output.
- c) cannot affect nominal wages.

Multiple Choice – Solutions to Principles of Economics II (Winter term 2002/03)

1b	6b	11b	16c	21a
2a	7c	12a	17b	22c
3c	8c	13b	18a	23a
4a	9a	14b	19b	24c
5a	10a	15b	20a	25b



5005 Introduction to Management II (WT 2002/3) – Retake Final Exam

Final Exam

You will be able to make a maximum of 60 points. There are a few pieces of advice we can offer at this stage:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit.)
3. Use the time you have! If you are ready much earlier than we planned you should wonder if you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.

Here is the set of problems:

Examiner: Prof. Dr. B. Wolff

Please solve four (4) of the following five (5) problems (maximum of 15 points per problem):

You are welcome to use a dictionary and a calculator.

Question 1: Terms

Define the following terms. Feel free to illustrate your definitions by examples.

- a) Adverse Selection
- b) Compensation Wage Differential
- c) Decision Management
- d) Empowerment
- e) JIT

Question 2: Agency Costs

Mobilola, a producer of cellular phones wants to hire a consulting service to help them to develop a global marketing strategy. Mobilola's marginal benefit from the consulting service is: $MB = 200 - 28Q$. The consulting service's marginal costs of providing the service per hour is: $MC = 80$.

- a) What is the value-maximizing price of the consulting service?
- b) What is the total surplus from the deal?
- c) Why could an agency problem occur in this case? How could it be solved? How could it change the profits of the two firms?

Question 3: Incentive Compensation

John works at a car factory. His job is to attach the tires to cars. John's utility function is $U = 1 - e^{-e}$. His income for the period and e is the number of units of effort exerted. His reservation utility is €1500. The benefits John's employer has from John's effort are: $B = €100e$. The factory offers John a contract that would pay him a part of his salary only if he provides a specified level of effort, \hat{e} .

- d) How much would the firm need to pay John to get him to work for the car factory? Explain your answer.
- e) What is the optimal level of effort John should provide?
- f) What is the profit of the factory when John provides the optimal level of effort?

Question 5: Transfer Prices

What is meant by transfer prices? What are the possible transfer pricing methods? How can transfer price affect the performance evaluation of divisions/managers?

Question 6: Incentive Compensation

Why do incentive problems exist? When is it beneficial to use group/team incentive compensation? What is the major problem with team incentives? Why?

Good Luck!