Question 1:

By only mentioning true or false, you will get half of the points. You should clearly specify why the claims are true or false.

If you correctly determine the validity of the claim BUT present a wrong illustration, you will not get the points.

Question 2:

a) Full points: explanation on the voting outcome in two cases (cost 1.5 or 2.5), and explanation on the pivotal role of the party with median willingness to pay.

b) In the initial proposal the outcome was not Pareto efficient (during weekends) due to congestion, with entry fees the outcome is (or could be) Pareto efficient. Note however, we cannot say whether there is a Pareto improvement.

c) Full points: explanation on the nature of the recreational area as a public good (during weekdays) and common pool (during weekends), and a club good with fencing. Note: a comment on the impact of time (weekend vs. weekday) on the nature of the good was supposed. Moreover, you were supposed to comment the mayor's view.

Question 3:

a)
- Mention the formula of the aggregate demand function in each case
- plot the figures correctly
- derive the final answer

b)
- Derive the multiplier formula and its final value
- Final answer of the total output change

c)
- Derive the multiplier formula
- Explain clearly why government spending can be used to stabilize the economy and plot the appropriate figure.

Question 4:

a) The investment decline reduces aggregate demand which leads to increase of unemployment. Due to the higher level of unemployment, there is more competition for jobs and the expected duration of unemployment may rise. As a result, employment rents rise and the wages that firms need to offer falls. This creates a downward pressure on wages. You were supposed to draw a picture.

b) You were supposed to compute the price index for the next three years. The outcome does not only depend on the bargaining gap, but also what are the inflation expectations (which should have been at least commented to grant full points).

c) Deflation increases the value of cash holdings and savings so it benefits those with savings i.e. lenders. On the other hand, debts denominated in nominal terms will increase in real terms so that borrowers will be worse off.

d) You were supposed to explain how the decrease of policy rate stimulates the economy.

Question 5:

a) Plot a figure and demonstrate the profit-maximizing decision for the firm

b)
- Plot a figure and demonstrate the Pareto efficient decision for the firm
- Compare the results with the previous part

c)
- Explain specifically how bargaining is possible. You should clearly mention why it is possible for one party to compensate the other and make a positive payoff at the end.
- Technical restriction of the bargaining (at least two)

d)
- Specify the exact taxing mechanism and its amount (using a figure)
- Specify the distributional effect on both parties and compare it to bargaining