UNE318C3: International Managerial Economics

The January test paper will take the following form. It will be divided into 2 sections:

Section 1 : Compulsory question –worth 30%

Section 2: Answer a minimum of 20 multiple choice questions –worth 70%

Duration: 2 hours

IMPORTANT: You will need to bring an HB pencil and a rubber to the test. This is for filling in the EDPAC form used for the multiple-choice section.

The type of questions you can expect are:

Section A: Compulsory Question:

Worth 30% of the marks

The following results for a consumption function for the UK are from the Microfit package:

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                    Ordinary Least Squares Estimation
 *************************************************************************
 Dependent variable is  GC
 31 observations used for estimation from   50 to   80
 *************************************************************************
 Regressor            Coefficient       Standard Error        T-Ratio[Prob]
 C                        .17962               .30856            .58211[.566]
 GY                       .49352               .063938          7.7187[.000]
 GP                      -.15915               .045708         -3.4818[.002]
 LC(-1)                  -.13116               .13460           -.97438[.339]
 LY(-1)                   .11688               .10961           1.0663[.296]
 LP(-1)                   .0055090             .0062041          .88796[.383]
 *************************************************************************
 R-Squared                .88724   F-statistic F( 5,  25)   39.3436[.000]
 R-Bar-Squared            .86469   S.E. of Regression            .0061285
 Residual Sum of Squares  .9390E-3 Mean of Dependent Variable     .021620
 S.D. of Dependent Variable .016661 Maximum of Log-likelihood    117.2858
 DW-statistic             1.7875
 *************************************************************************

                         Diagnostic Tests
 *************************************************************************
 *    Test Statistics  *      LM Version        *       F Version       *
 *************************************************************************
 *                     *                        *                       *
 * A:Serial Correlation*CHI-SQ( 1)=  .13917[.709]*F( 1,  24)=  .10823[.745]*
 *                     *                        *                       *
 * B:Functional Form   *CHI-SQ( 1)= .033271[.855]*F( 1,  24)= .025786[.874]*
 *                     *                        *                       *
 * C:Normality         *CHI-SQ( 2)=  1.1822[.554]*    Not applicable     *
 *                     *                        *                       *
 * D:Heteroscedasticity*CHI-SQ( 1)=  .32602[.568]*F( 1,  29)=  .30823[.583]*
 *                     *                        *                       *
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* E:Predictive Failure*CHI-SQ( 9)=  34.8489[.000]*F( 9, 25)=  3.8721[.003]*
*                     *                  *                 *
* F:Chow Test         *CHI-SQ( 6)=  24.2887[.000]*F( 6, 28)=  4.0481[.005]*
****************************************************************************
  A:Lagrange multiplier test of residual serial correlation
  B:Ramsey's RESET test using the square of the fitted values
  C:Based on a test of skewness and kurtosis of residuals
  D:Based on the regression of squared residuals on squared fitted values
  E:A test of adequacy of predictions (Chow's second test)
  F:Test of stability of the regression coefficients

List of Variables and their Descriptions

         C              : Intercept term
         CE             : Cons Exp Current Prices
         GC             : lc-lc(-1)
         GP             : lp-lp(-1)
         GY             : ly-ly(-1)
         LC             : log(rce-rde)
         LP             : log(ce/rce)
         LY             : log(rpdi)
```

a. Briefly explain what is being estimated here and what the underlying theoretical functional form is.
b. Briefly explain why the specification has lags and what the results tell us about the determination of consumption.
c. Briefly explain what the R -Squared, the DW-statistic, the Maximum of Log-likelihood and S.E. of the regression are and what they tell us about the regression results.
d. Briefly explain the diagnostic tests A, B, C and D and what they tell us about the model.
e. Briefly describe how you might proceed with the analysis.

Section B: Multiple Choice Questions

Answer a minimum of twenty questions

Question 1.

A firm's production function is given by the expression:

$$Q = -5/6.L^3 + 31.L^2$$

where Q = total output (or total product)
L = units of labour employed

also let AP = average product of labour
and   MP = marginal product of labour

Read the following statements carefully:

1. $AP = L/Q$
2. $AP = Q/L$
3. $AP = -5/6.L^2 + 31.L$
4. $AP = -5/6.L^4 + 31.L^3$
5. $AP = -L.(-5/6.L^2 - 31)$

Which **ONE** of the following statements is **CORRECT?**

a.   1 and 4 are correct;
b.   only 1 is correct;
c.   4 and 5 are incorrect;
d.   2 and 3 are correct.

Question 2:

A company in a perfectly competitive industry sells a product for £50 and has total costs:

$$TC = 1,000 +20Q+5Q^2$$

The output that maximises profit is:
    a. 1
    b. 2
    c. 3
    d. 4
    e. 5

Question 3

A firm may be able to deter entry into its market by
        a. building excess production capacity

b. gaining a reputation for irrational resistance
c. threatening to resist even though the other firms believe it is not in this firms interest
d. only a and b
e. all of the above

and so on…