PRIFYSGOL ABERYSTWYTH UNIVERSITY

SEMESTER ONE 2025

ABERYSTWYTH BUSINESS SCHOOL

AB23120: Microeconomics Theory and Policy Applications

Time allowed : **THREE HOURS**

Answer THREE questions

Answer **ONE** question from **SECTION A**, **ONE** question from **SECTION B** and **ONE** other from **EITHER SECTION**. All questions are of equal weighting.

CALCULATORS ARE PERMITTED (Casio FX-991, FX83 or FX85 models only)

MAE MODD I FYFYRWYR GYFLWYNO ATEBION I'R PAPUR HWN NAILL AI YN Y GYMRAEG NEU'R SAESNEG
STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH
LANGUAGE] DUE TO THE ASSESSMENT REQUIREMENTS OF THE MODULE

Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

SECTION A – Theory of Consumer Behaviour

1. Using indifference curve analysis, explain how a consumer's optimal consumption bundle changes as income rises, and illustrate how this leads to the derivation of an Engel curve for normal and inferior goods.

   [100%]

2. Using appropriate diagrams, describe how the income and substitution effects can be identified following a price change, and explain how these effects differ across normal, inferior, and Giffen goods.

   [100%]

3. With reference to the income–leisure model, analyse how variations in wage rates and overtime opportunities influence the number of hours an individual chooses to work.

   [100%]

4. Using an intertemporal choice framework, discuss how consumers decide between borrowing and saving, and show how interest rate changes affect their consumption choices over time.

   [100%]

SECTION B – Theory of the Firm

5. Explain how a firm determines its cost-minimising combination of labour and capital using isoquants and isocost lines, and discuss how this differs in the short run and the long run.

   [100%]

6. Using diagrams, illustrate how a monopoly determines its profit-maximising output and price in the short and long run, and assess the implications for efficiency and welfare.

   [100%]

7. Explain how the General Equilibrium model can be used to describe the simultaneous determination of prices and quantities across multiple markets, contrasting it with partial equilibrium analysis.

   [100%]

8. Discuss how game theory provides insights into the strategic behaviour of firms in oligopolistic markets, referring to key concepts such as Nash equilibrium and collusion.

   [100%]

END OF PAPER