

OLLSCOIL NA hÉIREANN, GAILLIMH  
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 2000

**EC100 ECONOMICS PAPER 1**  
1<sup>st</sup> B.A. (Economic and Social Studies)

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Mr. Stephen McNena

**Time allowed**            **THREE hours**  
**Marks:**                    **350**

**Please note that there are specific instructions for each of the three sections in this exam paper: section A (Microeconomics), section B (Macroeconomics) and section C (Multiple Choice questions)**

**SECTION A**  
**Microeconomics (125 marks)**

**Instructions: Answer question 1 (45 marks) and ONE other question (80 marks).**

1. Write a short note (maximum one/two paragraphs) on any **three** of the following:
  1. Opportunity cost
  2. Three properties of indifference curves
  3. Substitution effect of a price change
  4. Oligopoly
  5. Consumer surplus
  6. The effect of an import tariff on trade
2.
  - (a) Consider the world market for oil. Using three well-labelled diagrams, show the effects of each of the following events on the equilibrium price and quantity of oil:
    - i. Europe suffers from a particularly cold and harsh winter
    - ii. Huge gas fields are discovered off the Netherlands
    - iii. The OPEC international oil cartel succeeds in curtailing production of oil

**P.T.O**

- (b) The supply and demand for potatoes are described by the following equations. Quantity is measured in kilos and price in pounds.

$$Q_d = 50 - 6P$$

$$Q_s = 15 + 8P$$

Calculate the equilibrium price and quantity. Show all calculations.

- (c) Concerned at the low incomes of some potato farmers the government implements a legally-binding price of £3.50 per kilo.
- (i) Is this an example of a price floor or a price ceiling?
  - (ii) What will be the consequence of this action?
  - (iii) Calculate the size of the excess.

3.

- (a) In terms of production, distinguish between the short-run and the long-run.
- (b) Briefly, but carefully, explain the Law of Diminishing Marginal Returns.
- (c) Explain and illustrate how Diminishing Marginal Returns affect the shape of the SMC and SAVC curves.
- (d) In terms of costs, distinguish between normal and supernormal profits.
- (e)
  - (i) Explain what is meant by Economies of Scale.
  - (ii) Draw the LAC curve of a firm experiencing increasing returns to scale.
  - (iii) Assume that the British-based *Times* newspaper (circulation: 1 million) is very similar in size and content to the Irish-based *Independent* newspaper (circulation: 100,000). Can you suggest any reason why the *Times*' price is 50p while the *Independent's* price is £1, even though they are otherwise very similar?

**SECTION B**  
**Macroeconomics (125 marks)**

**Instructions: Answer question 1 (45 marks) and ONE other question (80 marks).**

1. Write a short note (maximum one/two paragraphs) on any **three** of the following:
  1. The Classical response to the Great Depression
  2. Three functions of money
  3. The size of the Keynesian expenditure multiplier in Ireland
  4. The difference between GDP and GNP in Ireland
  5. Two methods of measuring unemployment in Ireland
  6. Current Budget Deficit
  
2.
  - (a) Use the circular flow model of the economy to show, in three stages, how national income is determined in a closed economy.
  - (b) Using the Keynesian model of Income Determination, illustrate how an initial increase in government expenditure can result in a greater increase in equilibrium output. Briefly explain the outcome.
  - (c) Within the Keynesian model what forces ensure that actual output tends to move towards equilibrium output?
  
3.
  - (a) Define inflation. Discuss its measurement, and be sure to describe two price indices.
  - (b) Explain at least two causes of inflation and at least three consequences of inflation.
  - (c) Why do some economists question the accuracy of published inflation data?

**SECTION C**  
**Multiple Choice Questions (100 marks)**

**Please be careful when answering the following Multiple Choice questions. Write your answers in the same order as the questions. Please write clearly and legibly, as the letters "a", "c", and "d" can often be confused. Negative marking applies. (5 marks for a correct answer, 0 marks for an unanswered question and a penalty of -1 \_ marks for an incorrect answer)**

1. The recent large rises in house prices in Ireland have been caused by
  - (a) a decrease in mortgage interest rates
  - (b) a rise in immigration
  - (c) a shortage of zoned and serviced land
  - (d) a rise in disposable incomes
  - (e) all of the above
  
2. If both demand and supply increase at the same time, the result is that
  - (a) price always increases
  - (b) price always decreases
  - (c) quantity always falls
  - (d) quantity always increases
  - (e) both (a) and (d) occur
  
3. The level of supply can be affected by
  - (a) an increase in the population
  - (b) an improvement in technology
  - (c) changing tastes and preferences
  - (d) changes in consumers incomes
  - (e) all of the above
  
4. Suppose the price of tea falls by 12%. Subsequently, there is a 30% rise in the demand for coffee. All other things being equal, the cross price elasticity of demand for coffee with respect to tea is
  - (a) -2.5
  - (b) -0.40
  - (c) 0.40
  - (d) 2.5
  - (e) indeterminate

5. If the price elasticity of demand for bananas is  $-1.2$ , this means that
- (a) a change in price causes demand to change by 12%
  - (b) a 1% change in price will cause a 12% change in quantity demanded
  - (c) a 1% change in quantity demanded is associated with a 1.2% change in price
  - (d) a 10 % change in price causes a 12% change in quantity demanded
  - (e) a 10% rise in price causes a 12% rise in quantity demanded
6. Moving to a higher indifference curve
- (a) can be caused by a fall in the consumer's income
  - (b) involves a loss of utility
  - (c) means a higher level of utility
  - (d) can be caused by the prices of both goods increasing
  - (e) means no change in consumer satisfaction
7. In the indifference-preference analysis of consumer choice theory
- (a) consumers set out to maximise their level of satisfaction
  - (b) preferences must satisfy the law of transitivity, by assumption
  - (c) utility is constant along any given indifference curve
  - (d) consumers rank alternatives according to their preferences
  - (e) all of the above
8. If a firm experiences constant returns-to-scale then
- (a) It has an incentive to increase output
  - (b) It should lower the selling price
  - (c) It has an incentive to reduce output
  - (d) It has no incentive to change the output level
  - (e) None of the above
9. Charging a lower price to view a film in a cinema during the day, rather than during the evening, is an example of
- (a) lower income elasticity of demand
  - (b) perfectly inelastic price elasticity of demand
  - (c) price discrimination
  - (d) diseconomies of scale
  - (e) all of the above
10. The introduction of an indirect tax on a product or service causes
- (a) no change in the selling price
  - (b) consumer to pay a higher price and supplier to receive a lower price
  - (c) quantity sold to decrease
  - (d) a lower selling price
  - (e) both (b) and (c)

11. Which of the following is the better measure of the standard of living in Ireland
  - (a) nominal GDP
  - (b) real GNP
  - (c) real GNP per person
  - (d) real GDP
  - (e) the level of house prices
  
12. The difference between GNP and NNP is accounted for by
  - (a) interest rates
  - (b) savings
  - (c) depreciation
  - (d) net factor income sent abroad
  - (e) indirect taxes
  
13. Keynes believed that the large-scale unemployment experienced during the Great Depression was due to
  - (a) excessive savings by households
  - (b) a deficient level of aggregate demand in the economy
  - (c) very high inflation rates
  - (d) low inflation rates
  - (e) oil prices being too high
  
14. In the Keynesian model of Income Determination increases in autonomous expenditure result in
  - (a) smaller increases in output
  - (b) no change in the level of output
  - (c) larger increases in output
  - (d) higher prices for goods and services
  - (e) none of the above
  
15. The principle assumptions of the Keynesian model of Income Determination are
  - (a) the general price level in the economy is fixed
  - (b) the level of output depends on the level of aggregate expenditure
  - (c) the economy is operating below its maximum capacity
  - (d) all of the above
  - (e) none of the above
  
16. In the IS/LM model contractionary monetary policy results in
  - (a) higher interest rates
  - (b) higher demand for money
  - (c) higher interest rates and lower output levels
  - (d) lower interest rates
  - (e) higher money supply

17. Supply-side policies

- (a) attempt to increase the productive capacity of the economy
- (b) cause the Aggregate Supply curve to shift
- (c) can result in increased aggregate supply at each and every price level
- (d) include both fiscal policies and monetary policies
- (e) (a), (b), and (c) above

18. If a country experiences consumer price disinflation, this means that

- (a) consumer prices are falling
- (b) consumer prices are stable
- (c) the prices of all consumer goods are increasing slowly
- (d) the rate of growth of consumer prices is slowing down
- (e) that producer prices must have fallen

19. The rate of unemployment is equal to

- (a) the number of unemployed as a percentage of the labour force
- (b) the number unemployed as a percentage of the number employed
- (c) the number of unemployed as a percentage of the population
- (d) the number of unemployed as a percentage of all those aged over 15
- (e) the labour force participation rate

20. Productivity measures

- (a) the growth of incomes per head
- (b) the quantity of output per hour of labour input
- (c) the total production of goods and services in the economy
- (d) the quantity of output per worker
- (e) none of the above