

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 2000

EC100 ECONOMICS PAPER 2
1st B.A. (Economic and Social Studies)

Professor Michael Keane
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. Budget lines
 2. Income elasticity of demand
 3. Income effect of a price change
 4. Monopolistic Competition
 5. Producer surplus
 6. The effect of an import quota on trade
2.
 - (a) Explain what is meant by price elasticity of demand.
 - (b) What factors determine the price elasticity of demand for a particular product?
 - (c) Explain the relationship between price elasticity of demand and Total Revenue.

P.T.O.

- (d) Consider the following hypothetical situation. The price of GAA Munster Hurling Final tickets in 2001 will be £15. 40,000 tickets will be sold that year. In 2002 the GAA will increase ticket prices to £18. Only 20,000 tickets will be sold. Assume all other factors are constant.

- (i) Estimate the price elasticity of demand for Munster Final tickets.
- (ii) Interpret your answer.
- (iii) In terms of maximising Total Revenue, is the GAA correct in increasing the ticket price?

3.

- (a) Outline four features of a perfectly competitive industry, and compare and contrast these with a monopoly.
- (b) Consider a small dairy farm operating in a perfectly competitive market. The market price is £8 per gallon of milk. The marginal cost is as follows:

Quantity (gallons)	Marginal cost per gallon
20	£5
40	£4
60	£5
80	£7
100	£10

- (i) Plot the MR curve of the farm.
- (ii) Plot the MC curve.
- (iii) From the diagram, estimate the optimal output of milk

At the optimal output level the SATC of producing a gallon of milk is £6.

- (iv) Sketch the U-shaped SATC curve of the farm.
- (v) Is the farm making economic profits or economic losses?
- (vi) Indicate the size of any profits or losses on the diagram.
- (vii) What will happen in the long-run in this industry?

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. Personal (or household) disposable income
 2. The demands for money in the Liquidity Preference theory of interest rates
 3. Limitations of GDP as a measure of human well-being or quality of life
 4. Two types of unemployment
 5. The National Debt
 6. Productivity

2. Using each of the three macroeconomic models (i.e. Liquidity Preference model, IS/LM model and AD/AS model), and holding everything else constant, analyse **fully** the effect of an increase in the money supply on:
 1. interest rates
 2. equilibrium output
 3. the price level
 4. employment and unemployment

3.
 - (a) Explain the four sub-accounts of the Current Account of the Balance of Payments and give an example of a transaction that is recorded in each.
 - (b) The Irish pound / US Dollar exchange rate is as follows:

January	£1 = \$1.40
February	£1 = \$1.30

 - (i) What is an exchange rate?
 - (ii) Between January and February did the dollar depreciate or appreciate?
 - (iii) How would this movement in exchange rates affect Irish exporters to the USA? Explain.
 - (c) What was the principal reason for Ireland joining the Exchange Rate Mechanism? How did it work in practice?
 - (d) Outline three costs and three benefits of Ireland's membership of EMU.

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 price of petrol increases. Holding everything else constant
 - (a) there is movement down along the demand curve for petrol
 - (b) the demand for cars will rise
 - (c) the quantity demanded of petrol rises
 - (d) the demand curve for cars shifts outwards
 - (e) none of the above

2. Rent ceilings generally lead to
 - (a) increased supply of rented accommodation
 - (b) no increase in the supply of rented accommodation
 - (c) higher rents
 - (d) increases in the quality of rented accommodation
 - (e) none of the above

3. The cross-price elasticity of demand
 - (a) measures the responsiveness of quantity demanded to changes in the price of the same good
 - (b) results in a negative coefficient always
 - (c) measures the responsiveness of quantity demanded of one good to changes in the price of another good
 - (d) is zero for all pairs of goods

4. If the price elasticity of demand is -0.10 we can say that
 - (a) it is a normal good
 - (b) the demand is elastic with respect to price
 - (c) the demand is slightly inelastic with respect to price
 - (d) it is an inferior good
 - (e) the demand is very inelastic with respect to price

5. An inferior good means that
 - (a) a rise in the price causes a rise in quantity demanded
 - (b) falling consumer incomes increase demand
 - (c) a fall in price causes a fall in quantity demanded
 - (d) demand is perfectly price inelastic
 - (e) both (a) and (b) above

6. If the prices of both goods simultaneously fall in equal proportions then
 - (a) the budget line shifts inwards
 - (b) the budget line rotates inwards
 - (c) the consumer moves onto a lower indifference curve
 - (d) the consumer remains on the same indifference curve
 - (e) the budget line shifts outwards parallel

7. If a firm's Total Revenue is £1800 at the optimal output level of 150 units, and the firm is making economic profits of £450, then the AC is
 - a) £12
 - b) £9
 - c) £3
 - d) impossible to calculate
 - e) £15

8. The maximum loss a firm should experience in the short run is equal to
 - (a) zero
 - (b) total costs
 - (c) total variable costs
 - (d) total fixed costs
 - (e) none of the above

9. The market for mobile telephone services in the Republic of Ireland is an example of
 - (a) a perfectly competitive market
 - (b) a monopoly
 - (c) an oligopoly
 - (d) a cartel
 - (e) none of the above

10. The two groups to benefit from the introduction of an import quota are
 - (a) domestic consumers and foreign suppliers
 - (b) domestic consumers and the government
 - (c) the government and domestic suppliers
 - (d) domestic suppliers and quota-licence holders
 - (e) quota-licence holders and the government

11. Which of the following are all examples of leakages from the circular flow
 - (a) exports, taxes and savings
 - (b) savings, imports and transfer payments
 - (c) taxes, government expenditures and transfer payments
 - (d) imports, taxes and savings
 - (e) none of the above

12. If the general price level in Ireland is rising by 3% per year, and the volume of goods and services being produced is increasing by 4% per year then
- (a) nominal GDP is rising at 4% per year
 - (b) real GDP is rising at 3% per year
 - (c) nominal GDP is rising by 7% per year
 - (d) real GDP is increasing at a rate of 4% per year
 - (e) both (c) and (d)
13. The narrow money supply (M1) consists of
- (a) notes plus coins
 - (b) currency plus current accounts in commercial banks
 - (c) currency plus savings accounts
 - (d) currency, current accounts and savings accounts
 - (e) none of the above
14. In the Keynesian Liquidity Preference theory, higher incomes will
- (a) cause interest rates to fall
 - (b) cause the money supply to expand
 - (c) increase both the demand for money and the interest rate
 - (d) cause the demand for money to fall
 - (e) cause the money supply to decrease
15. Which of the following causes an inward shift of the IS curve
- (a) falling interest rates
 - (b) lower output levels
 - (c) increased government expenditure
 - (d) lower income taxes
 - (e) higher income taxes
16. An increase in interest rates
- (a) causes a movement up and to the left along the aggregate demand curve
 - (b) causes a downward shift in the aggregate supply curve
 - (c) causes an increase in the price level
 - (d) causes a shift inwards of the aggregate demand curve
 - (e) causes a upward shift in the aggregate supply curve
17. Which of the following causes a movement along the aggregate supply curve
- (a) an increase in the price level
 - (b) an increase in investment
 - (c) a decrease in the money supply
 - (d) a decrease in government spending
 - (e) an increase in autonomous consumption

18. Consumer price deflation

- (a) means a slowdown in the rate of inflation
- (b) means that consumer prices are stable
- (c) means that commodity prices must be falling
- (d) reduces the purchasing power of money
- (e) means that the prices of many consumer goods and services are falling

19. The Labour Force Participation Rate measures

- (a) employment
- (b) the size of the working-age population
- (c) the proportion of the working-age population that are either employed or unemployed
- (d) the size of the labour force
- (e) unemployment

20. The Exchequer Borrowing Requirement is

- (a) the same as the Current Budget deficit
- (b) the sum of the Current and Capital budget deficits
- (c) equivalent to the national debt
- (d) the principal cause of a rising national debt
- (e) both (b) and (d)