

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER 2000

REPEAT EXAM for 1999

PAPER 1

EC100, EC101 AND EC102 ECONOMICS

1st BA; 1st BComm; 1st BA, Public and Social Policy; 1st BComm w/ French; 1st BComm w/ Spanish; 1st BComm w/ German; 1st BSc in Financial Mathematics and Economics; 1st BSc in Information Technology

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Duration: Three Hours

Total: 300 marks

Directions: There are three sections. Follow the directions for each section and note the marks associated with each. Place the multiple choice answers on the specially designed MCQ answer sheet. Each of the other sections should be answered in a separate answer booklet. Show all of your work. Good luck.

Section A: Multiple Choice (150 marks)

There are thirty (50) multiple choice questions to be answered on the special sheet provided.

Please enter your ID number on the answer sheet. *Enter 0* in the last of the nine boxes. Also on the answer sheet write your name and degree.

Negative marking will be used for the multiple choice questions. For each correct answer you will receive a score of 3.0, a score of 0 if the question is not answered. If the questioned is answered incorrectly, a score of -0.6 will be given. *For each question only one answer will be accepted. If you make a mistake on the answer sheet you must erase or "white-out" the incorrect answer. Merely crossing out the wrong answer will not work.*

1. Which of the following is **not** a component of Aggregate Demand?
 - a. Savings
 - b. Consumption
 - c. Investment
 - d. Government Spending

2. The higher the Marginal Propensity to Consume, the
 - a. higher the Marginal Propensity to Tax
 - b. higher the Marginal Propensity to Save
 - c. lower the Multiplier
 - d. higher the Multiplier

3. The Multiplier in Ireland is
 - a. lower because of the high amount of imports
 - b. higher because of the high amount of exports
 - c. high because of the European Union
 - d. none of the above

4. Which of the following is part of a Expansionary Fiscal Policy:
 - a. an increase in taxes
 - b. an increase in government spending
 - c. an increase in the money supply
 - d. both (a) and (b)

5. Gross domestic product:
 - a. is the market value of all final goods and services produced within a country in a given period (usually a year).
 - b. is the income in the hands of individuals after deducting income taxes; income available to households to spend and save.
 - c. is the value of goods and services purchased by all levels of government - federal, state, and local - in a given period.
 - d. is the market value of all final goods and services produced by permanent residents of a nation in a given time period.

6. The difference between the Irish gross national product (GNP) and gross domestic product (GDP) is:
 - a. GNP measures Irish output produced regardless of location; whereas GDP measures output produced only in the Ireland.
 - b. GDP measures Irish output produced regardless of location; whereas GNP measures output produced only in the Ireland.
 - c. GNP includes depreciation (capital consumption allowance) whereas GDP excludes depreciation.
 - d. GDP includes depreciation (capital consumption allowance) whereas GNP excludes depreciation.

7. Suppose that nominal GDP is \$6,000 billion and real GDP is \$3,000. What is the GDP price deflator?
- 125
 - 150
 - 200
 - 250
8. John Brown stops looking for work because he believes his prospects are so poor he is unlikely to find a job. The Central Statistics Office would classify John as:
- not in the labour force.
 - on layoff.
 - unemployed.
 - employed as a household worker.
9. The natural rate of unemployment:
- is caused by cyclical business conditions.
 - is the normal rate of unemployment around which the unemployment rate fluctuates.
 - results from both frictional and cyclical economic conditions.
 - is not present when the economy is at the peak of an economic boom.
10. If a country's total population (age 16 and over) is 40 million, with 1 million unemployed and 24 million currently holding jobs,
- the unemployment rate is 2.5 percent and the labour force participation rate is 60 percent.
 - the unemployment rate is 4 percent and the labour force participation rate is 60 percent.
 - the unemployment rate is 4 percent and the labour force participation rate is 62.5 percent.
 - the unemployment rate is 4.2 percent and the labour force participation rate is 96 percent.
11. The unemployment rate is equal to:
- the number of persons unemployed divided by the number employed.
 - the number of persons unemployed divided by the number in the labour force.
 - the number of persons unemployed divided by the population age 16 and over.
 - the number of persons working divided by the population age 16 and over
12. According to the theory of efficiency wages:
- cultural factors are the major cause of the pay gap.
 - differences in human capital strongly influence the efficiency of women.
 - wages above the equilibrium level are paid by firms in order to increase efficiency and production.
 - higher female unemployment explains why it is efficient to pay women less than men.

13. The velocity of money is:
- a. the rate at which the price index for consumer goods rises.
 - b. the multiple by which an increase in government expenditures will cause output to rise.
 - c. set by the Director of the Irish Central Bank.
 - d. the average number of times a pound is used to purchase newly produced goods and services during a year.
14. The relationship of the money demand curve to the value of money is shown by its:
- a. downward slope.
 - b. upward slope.
 - c. horizontal position.
 - d. vertical position
15. If the monetary authorities continue over time to expand the supply of money more rapidly than real output, the probable result will be:
- a. inflation.
 - b. lower nominal interest rates.
 - c. an increase in real aggregate supply.
 - d. a decline in the velocity of money.
16. When a currency appreciates, the:
- a. prices in that country are falling.
 - b. prices in that country are rising.
 - c. currency buys fewer units of another currency.
 - d. currency buys more units of another currency.
17. The trade balance measures:
- a. the amount of goods a country exports minus the amount of goods it imports.
 - b. the total amount of foreign exchange entering an economy minus the amount of the country's own currency leaving the country.
 - c. the amount of a country's assets owned by foreigners minus the amount of foreign assets owned by citizens of the country.
 - d. the amount of money loaned to foreigners minus the amount borrowed from foreigners.
18. When a country exports more than it imports, it experiences:
- a. great wealth.
 - b. inflation.
 - c. a trade deficit.
 - d. a trade surplus.

19. The Irish pound would have appreciated if:
- it had been exchanging for one US dollar, but it can now be exchanged for two.
 - Ireland had a balance of trade surplus.
 - it had been exchanging for three US dollars, but it can now be exchanged for two.
 - the number of pounds demanded in the foreign exchange market decreased.
20. A tariff differs from a quota in that:
- a tariff is levied on imports, whereas a quota is imposed on exports.
 - a tariff is levied on exports, whereas a quota is imposed on imports.
 - a tariff is a tax levied by a foreign country, whereas a quota is a limit on the total trade allowed.
 - a tariff is a tax imposed on imports, whereas a quota is an absolute limit to the number of units of a good that can be imported.
21. Which of the following occur during a recession?
- increases in unemployment
 - decreases in real output
 - decreases in real income
 - all of the above
22. If consumer confidence improves sharply, then in the short run:
- aggregate demand shifts left, the price level falls, and real output falls.
 - aggregate demand shifts right, the price level rises, and real output rises.
 - aggregate supply shifts right, the price level falls, and real output rises.
 - aggregate supply shifts left, the price level rises, and real output falls.
23. Critics of policy activism argue that the effects of monetary policy are uncertain due to:
- lags in recognizing the need for policy action.
 - an erratic velocity of money.
 - the general flexibility of prices and wages.
 - erratic behaviour on the part of the Central Bank.
24. In the short run, an open market sale of government securities by the Central Bank will cause:
- the money supply curve to shift to the right.
 - the money supply curve to shift to the left.
 - the rate of interest to fall.
 - the government to pursue a fiscal policy designed to decrease aggregate demand.
25. The "Crowding-Out" effect of government spending refers to
- too many government workers
 - large government surpluses affecting the budget
 - government borrowing affecting the interest rate and private investment
 - the inefficiency of government debt

26. Demand management policies
- were advocated by Keynes
 - refer to boosting the economy during recessions and slowing the economy during booms
 - are always and everywhere effective
 - both (a) and (b)
27. An increase in the price of foreign goods will cause
- the aggregate demand curve to shift down and to the left.
 - the aggregate demand curve to shift up and to the right.
 - the aggregate supply curve to shift up and to the left.
 - the aggregate supply curve to shift down and to the right.
28. The Live Register is usually a larger measure of unemployment than the Labour Force Survey because:
- people such as homemakers are not included in the labour force, yet may receive social welfare benefits
 - unemployed people who are not actively seeking work are not counted as unemployed yet receive social benefits.
 - fraud
 - all of the above
29. Which one of the following statements about Central Bank operations is false?
- Selling government bonds increases the money supply.
 - Selling government bonds increases the interest rate.
 - Buying government bonds increases the money supply.
 - Buying government bonds reduces the interest rate.
30. Looking at labour demand, unemployment occurs because
- the wage is too high.
 - social benefits are too low.
 - the wage is too low.
 - the minimum wage is set too low.
31. Potentially unlimited wants and limited resources create
- Scarcity
 - the necessity of choice
 - opportunity cost
 - all of the above
32. The law of demand states that
- If price rises, the quantity demanded falls
 - If price rises then demand must also rise
 - If price rises, market forces come into play forcing the price back down
 - none of the above

33. Changes in which of the following would **not** cause the demand curve to shift?
- a) consumer income
 - b) the price of resources
 - c) consumer preferences
 - d) expectations of future prices
34. In the neoclassical school, price determines
- a) what gets produced
 - b) what techniques are used
 - c) the distribution of income
 - d) all of the above
35. Which of the following is found only in the numerator of the Marxian rate of profit?
- a) wages
 - b) price of materials and machines
 - c) effort per hour of labour
 - d) materials and machines used per hour of labour
36. Social science models generally discuss the following topics or categories:
- a) the important actors
 - b) the important relationships
 - c) the important behaviours
 - d) all of the above
37. According to the Marxian definition, classes exist when
- a) one group has more income than another group
 - b) one group directs the activities of another group
 - c) markets control the allocation of resources
 - d) one group lives off the labour of another group
38. According to the institutional school
- a) the summation of individual choices creates institutions
 - b) institutions govern the majority of individual behaviours
 - c) the state should dictate people's behaviour
 - d) education is irrelevant to understanding what people do
39. Conservative policy conclusions are generally associated with which school of thought?
- a) neoclassical
 - b) institutional
 - c) Marxian
 - d) both a) and b)

40. A change in which of the following would cause a movement along the supply curve?
- a) technology
 - b) price
 - c) number of sellers
 - d) expectations of future prices
41. Which of the following can be either positive or negative?
- a) the income effect
 - b) the substitution effect
 - c) the wealth effect
 - d) all of the above are positive
42. The percentage change in quantity of good A divided by the percentage change in price of good B is
- a) the consumer utility maximisation rule
 - b) income elasticity
 - c) cross price elasticity
 - d) the substitution effect
43. Wage labour is key to which school's definition of capitalism
- a) neoclassical
 - b) Marxian
 - c) institutional
 - d) none of the above
44. A consumer's utility is maximised
- a) where the budget line is just tangent to an indifference curve
 - b) where the total budget can be increased by switching consumption from one good to another
 - c) at the highest indifference curve represented on the indifference map
 - d) where the goods are chosen in order to produce the highest budget line
45. As income rises, a larger percentage of income is spent on the good. This good is a
- a) necessity
 - b) luxury
 - c) substitute
 - d) perfectly inelastic
46. A change in price will
- a) alter the slope of a consumer's indifference curves
 - b) cause two indifference curves to cross
 - c) alter the slope of the budget line
 - d) create two budget constraints where before there was only one

47. Opportunity cost is
- a) the next best alternative foregone
 - b) created by the necessity of choice
 - c) implied by the scarcity of resources
 - d) all of the above
48. Which school of thought argues that individual behaviour is determined by socially constructed habits and patterns of action?
- a) neoclassical
 - b) Marxian
 - c) institutional
 - d) all of the above
49. In the mark-up pricing model, prices are determined by technology and
- a) the distribution of income
 - b) the level of demand
 - c) costs
 - d) customs
50. An increase in the number of consumers would cause
- a) price to fall and quantity to rise
 - b) price to fall and quantity to fall
 - c) price to rise and quantity to rise
 - d) price to rise and quantity to fall

Section B: Short Macroeconomic Questions (50 marks)

For the following questions, read the newspaper article, refer to the provided graph or table, and answer all of the questions. There are four (4) questions in all.

| Gross Domestic Product | 1998 | 1999 |
|------------------------|---------|---------|
| Consumption | 38,967 | 43,304 |
| Investment | 18,013 | 21,484 |
| Government Spending | 10,136 | 10,889 |
| Exports | 63,874 | 72,360 |
| Imports | -55,013 | -62,505 |
| Total GDP | 75,977 | 85,532 |

All figures in millions of Euros.

Answer questions 1-4 based on the above table.

1. What is the growth rate in GDP from 1998 to 1999?
2. What percentage of GDP are imports and what percentage are exports in 1999?
3. Are these percentages increasing or decreasing?
4. Give an estimate of the expenditure multiplier for 1999.

Section C (Applied Economics). (100 marks).

Write a short note on six of the following topics.

1. The Bacon report on house prices.
2. Public goods
3. The Coase Theorem
4. Concentration ratio
5. Allocative efficiency
6. Asymmetric information
7. Externalities
8. Returns to scale
9. Equilibrium under a monopoly
10. Prisoner's dilemma