

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER 2000

REPEAT PAPER 2 for 1999

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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Mr. M. Coffey

Duration: Three Hours
Total: 300 marks

Directions: *There are three sections for this exam. Read all the directions for each section. Write your answers in a separate booklet for each section. You may use a calculator for some problems, but show all your work. Good luck and enjoy your summer.*

Section A: Microeconomics (100 marks)

Answer the following question fully.

1. Explain why demand curves slope down. Include more than one explanation. Use graphs where appropriate. Use indifference curves in one explanation.

Section B: Macroeconomics (100 marks)

Short Problems: (20 marks) Answer the following questions by using the data in the table provided. Each question is five marks.

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
Consumer Price Index(1990 = 100)	119.6	122.9

All figures except the Consumer Price Index are in millions of Euros.

- 1) What was the inflation rate from 1998 to 1999?
- 2) Based on the numbers above what is an estimate of the Marginal Propensity to Consume and the Marginal Propensity for Imports in 1999?
- 3) Assume that the tax rate is 30% of income, based on the data provided, what is the multiplier in 1999?
- 4) Using the multiplier you found in question (3), what would be the effect on total GDP of an increase in Government Spending of 2 million euros?

Essay: (80 marks) Answer only ONE of the following two questions.

1. Discuss the role of the Central Bank in an economy. List first its tools and characteristics. Then address each of the following points.

- a) How do Keynesian economists and Neo-classical economists differ in their opinions of the role of a Central Bank?**
- b) What are the differences in policies followed by a central bank which engages in inflation-targeting versus a central bank which engages in growth-targeting?**
- c) What are the economic effects of any actions taken by the central bank?**
- d) What are some of the problems faced by the Irish Central Bank and the European Central Bank?**

– OR –

- 2. Discuss the differences between economic policies which focus on demand management and economic policies which focus on the supply-side. Be sure to include the major monetary and fiscal policy approaches of both. And be sure to include some of the historical background of both demand management and supply-side economics. In your own opinion, is the European Union following a demand management or a supply-side approach in its economic policies? Explain.**

Section C. Applied Economics (100 marks)

Please use a separate answer book (s) for this section.

Answer four of the following questions. All questions are worth equal marks.

1. Consider the market for taxi licences in Dublin. Use diagrams to illustrate the relationship between the 'official' market and the secondary market for *taxi licences*.

Illustrate on these diagrams the effect of an increase in the demand for *taxi licences*.

Why has the demand for *taxi services* in Dublin increased in the last ten years?

2. Consider the market for an agricultural commodity that is traded on the world market. Its equilibrium price is 10 Euro's. At this price European consumers can buy all they want. Some European farmers are willing to produce the commodity at this price but most think the price is too low. Suppose European farmers persuade the European Commission to put a tax of 50 per cent on this commodity.

Illustrate carefully on a diagram the effects of this tax (known as a tariff) on (a) European production of this commodity and (b) European consumption of this commodity.

Analyse the welfare effects of this tax on European consumers, (b) European producers and (c) the European Commission. Taking everything into account do you think this is a good policy?

3. A few years ago a survey in Galway found the following prices of potatoes - £1.99, £2.49, £2.50, £2.79 and £2.99. A survey of electric cookers found the following prices - £199, £205, £210, £220, £221, £223 and £269.

What does economic theory have to say about the amount of time that a consumer will spend searching for low prices?

What effect will this behaviour have on the variation in the prices of goods such as potatoes and cookers?

Explain how you would use the information on the prices of cookers and potatoes to test this theory.

4. Discuss the factors that have been used to explain the rapid economic growth in Ireland over the past ten years.
5. The government is considering building a new motorway between Limerick and Galway. Explain the difficulties in measuring the costs and benefits of such a project.

6. What is the Euro? Why has the Euro fallen in value since it was launched on January 1st 1999? Should the European Central Bank be doing more to maintain the value of the Euro?