905

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Semester II Examinations, 2004/2005

Exam Code(s)	1BC1, 1BC4, 1CL1 (legal French)
Exam(s)	1st Comm., 1st Comm. (Spanish), 1st Corp.Law (Legal French)
Module Code(s)	EC100
Module(s)	Economics
Paper No.	1
Repeat Paper	Special Paper
External Examiner(s)	Professor Vincent Munley
Internal Examiner(s)	Mr. Brendan Kennelly
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Instructions: Students are required to answer all questions in section A (40%) on the MCQ answer sheet provided, and any 4 questions in section B (60%). All questions in section B carry equal marks.

Duration	3hrs
No. of Answer Books	MCQ
Requirements:	
Handout	
MCQ	Section A
Statistical Tables	
Graph Paper	
Log Graph Paper	
Other Material	
No. of Pages	8
Department(s)	Economics

EC100

MICROECONOMICS

Section A

Instructions: All 20 questions in section A are compulsory
Total of 40 marks (2 marks per question)

1. Monopolistic competition is best described as a market structure in which
(a) a single firm is the sole seller of a product without close substitutes;
(b) only a few buyers purchasing similar or identical products;
(c) many firms sell products that are similar but not identical;
(d) only a few sellers offer similar or identical products;
(e) none of the above.

2. Which of the following statements accurately describes a price ceiling?
(a) it is usually designed to help producers;
(b) it is usually designed to help consumers;
(c) a surplus may be a permanent feature of this market;
(d) a shortage may be a permanent feature of this market;
(e) both statement (b) and (d) accurately describe a price ceiling.

3. The comparison among producers of a good according to their productivity is called
(a) comparative advantage;
(b) absolute advantage;
(c) economic efficiency;
(d) Pareto optimality;
(e) none of the above

4. The difference between the price producers receive for a good and the cost of producing the good is called the
(a) substitution effect;
(b) producer surplus;
(c) marginal rate of substitution;
(d) opportunity cost;
(e) marginal utility.

5. Opportunity cost is measured in terms of the
(a) excess of what a person is prepared to pay for a good over what the person actually pays;
(b) change in demand resulting from a change in the price level, alone;
(c) highest valued alternative forgone;
(d) surplus payment made in excess of the minimum payment needed to keep the factor in its present use;
(e) none of the above.

6. Market failure is best described as
(a) the ability of a single economic actor to have a substantial influence on market prices;
(b) a situation in which a market left on its own fails to allocate resources efficiently;
(c) a market structure with many firms selling products that are similar but not identical;
(d) a market with only a few sellers offering similar or identical products;
(e) none of the above.

7. If the cross price elasticity of demand between two goods is positive the goods are said to be
(a) complements;
(b) substitutes;
(c) giffen goods;
(d) normal goods;
(e) none of the above.

8. Positive statements about economics constitute
(a) claims that attempt to prescribe how the economy should be;
(b) claims that lead to a Pareto improvement;
(c) claims that attempt to improve how the economy works;
(d) claims that attempt to describe the economy as it is;
(e) all of the above.

9. The difference between the price consumers receive for a good and the price paid for a good is called the
(a) substitution effect;
(b) consumer surplus;
(c) marginal rate of substitution;
(d) opportunity cost;
(e) marginal utility.

10. When dealing with issues of trade a producer with a lower opportunity cost is said to have
(a) an absolute advantage;
(b) a comparative disadvantage;
(c) a comparative advantage;
(d) an absolute disadvantage;
(e) none of the above

11. When a monopolist increases the number of units it sells, there are two effects on revenue. They are the
(a) demand effect and the supply effect.
(b) competition effect and the cost effect.
(c) competitive effect and the monopoly effect.
(d) output effect and the price effect.

12. For a monopolist, marginal revenue is
(a) positive when the demand effect is greater than the supply effect.
(b) positive when the monopoly effect is greater than the competitive effect.
(c) negative when the price effect is greater than the output effect.
(d) negative when the output effect is greater than the price effect.

13. One key difference between an oligopoly market and a competitive market is that oligopolistic firms
(a) are price takers while competitive firms are not.
(b) are interdependent while competitive firms are not.
(c) sell completely unrelated products while competitive firms do not.
(d) sell their product at a price equal to marginal cost while competitive firms do not.

14. In a monopolistically competitive industry, price is
(a) equal to marginal cost since each firm is a price taker.
(b) below marginal cost since each firm is a price taker.
(c) above marginal cost since each firm is a price setter.
(d) always a fraction of marginal cost since each firm is a price setter.

15. The free entry and exit of firms in a monopolistically competitive market guarantees that
(a) both economic profits and economic losses can persist into the long run.
(b) both economic profits and economic losses disappear in the long run.
(c) economic profits can persist into the long run, but not economic losses.
(d) economic losses can persist into the long run, but not economic profits.

16. The Coase theorem suggests
(a) a theory in which the working of markets allows economic activity to be coordinated without any central organisation;
(b) a situation in which no feasible change can raise anybody's welfare without lowering that of somebody else;
(c) a theory which states that if private parties can bargain without cost over the allocation of resources, they can solve the problem of externalities on their own;
(d) both (a) and (b) above;
(e) both (b) and (c) above.

17. If the price elasticity of a good is -0.3, we can say that
(a) a 3 percent rise in its price will reduce quantity demanded by 10 percent;
(b) the demand for the service is elastic;
(c) the demand for the service is inelastic;
(d) both (a) and (b) above;
(e) both (a) and (c) above.

18. The efficient scale refers to
(a) the property whereby long-run average total cost falls as the quantity of output increases;
(b) the property whereby long-run average total cost rises as the quantity of output increases;
(c) the property whereby long-run average total cost remains constant as the quantity of output increases
(d) the quantity of output that minimizes average total cost;
(e) the quantity of output that minimizes fixed costs.

19. What happens to price and quantity when there is a decrease in demand and a decrease in supply of videos, does it
(a) leave price and quantity the same;
(b) leave price ambiguous and increase quantity;
(c) decrease price and leaves quantity ambiguous;
(d) leave price ambiguous and decrease quantity;
(e) none of the above.

20. The Laffer curve is best described as
(a) a curve plotting the rate of increase of wages against unemployment;
(b) a point where a function changes its curvature;
(c) a function showing the maximum output possible with any given set of inputs, assuming these are used efficiently;
(d) a curve showing the relationship between tax rates and revenue raised;
(e) none of the above.

Section B
Microeconomics

Instructions: Answer four questions in section B only
This section is worth 60 marks (each question is worth 15 marks)

B1.

(a) In a competitive market, price is determined by demand and supply. Explain this statement. (5)

(b) Explain what is meant by the law of demand. With the aid of a diagram explain the difference between a change in *quantity demanded* and *a change in demand.* (4)

(c) Draw and label a supply and demand diagram which shows how the equilibrium price is determined. On the graph clearly label equilibrium price, equilibrium quantity and show the total revenue received by producers. (3)

(d) Imagine that a recent technological advance reduces the cost of producing computers. Use a supply and demand diagram to illustrate what happens to price and quantity in the market for computers. (3)

B2.

(a) Draw a diagram, which shows *consumer* and *producer* surplus at the market equilibrium. Briefly explain what is meant by consumer and producer surplus. (3)

(b) Draw a demand and supply diagram with a tax on the sale of a good. Show the deadweight loss. Show the tax revenue. (4)

(c) Consider the following equations:

$$Q_D = -P + 16$$
$$Q_S = 2P - 8$$

(i) Find the equilibrium for the following market by solving the equations below for *equilibrium price* and *equilibrium quantity*. (4)
(ii) Draw a diagram which shows the demand and supply curves. (2)
(iii) Now imagine if $P = 10$, calculate the shortage or surplus. (2)

B3.

(a) Explain the concept 'price elasticity of demand'. What are the main determinants of price elasticity of demand? (5)

(b) Consider a market for pencils. If this market has very elastic supply and very inelastic demand, how would the burden of a tax on pens be shared between consumers and producers? Employ consumer surplus and producer surplus to answer the question. (3)

(c) The Irish Government takes a decision to reduce carbon dioxide emissions to meet its obligations on climate change. The government introduces a tax of €0.10 on each litre of fuel sold.

  (i) Would the tax be best levied on producers or consumers? Explain your answer with the aid of a diagram. (4)

  (ii) Imagine if the demand for fuel were more *elastic*. Would the tax introduced by the government be ***more*** or ***less*** effective at reducing the quantity of fuel consumed and meeting emissions targets. Explain your answer. (3)

B4.

(a) Give an example of a negative externality and a positive externality. (2)

(b) Use a supply and demand diagram to explain the effect of a negative externality in production. (3)

(c) Define and give an example of a public good. Can the private market provide this good on its own? Explain your answer. (3)

(d) In recent decades, many fisheries in developed countries (which can be classified as common resources) have been exploited to the point of near-exhaustion.

  (i) Define the term a "common resource". Provide an example of a common resource. (2)

  (ii) In the absence of government intervention, will people overexploit fish stocks too much or too little Why? Explain why over-fishing might be *rational* for fisherman and who bears the costs of overfishing and why? (5)

B5.

(a). Define total cost, average total cost and marginal cost. (3)

(b). Define *economies of scale* and explain why they might arise. Define *diseconomies of scale* and explain why they occur. (3)

(c) (i) Consider the total cost and total revenue in the table below. Complete the table above by calculating the marginal cost, marginal revenue and profit. (3)

Quantity	Total Cost	Marginal Cost	Total Revenue	Marginal Revenue	Profit
0	8	---	0	---	
1	9		8		
2	10		16		
3	11		24		
4	13		32		
5	19		40		
6	27		48		
7	37		56		

(ii) How much should the firm produce to maximize profit? (1)

(d) Using diagrams where appropriate, explain the difference between a firm's short run decision to shutdown and a firm's long-run decision to shutdown. (5)

B6.

(a) Imagine that you are offered a position with a salary of €30,000 and you save some of this income that pays an annual rate of interest of 5%. Use a diagram, with a budget constraint and indifference curves to show how your consumption changes in each of the following situations. To keep things simple, assume you pay no taxes on your income. (10)

(i) your salary increases to €40,000

(ii) the interest rate on your bank account rises to 8%

(b) We can divide an individuals life into two hypothetical periods: "young" and "old". Imagine that the individual earns income only when young and saves some of that income to consume when old. If the interest rate on savings falls, can you describe what happens to consumption when young? Can you tell what happens to consumption when old. Explain your answer with reference to income and substitution effects. (5)