

*Ollscoil na hÉireann, Gaillimh*  
*National University of Ireland, Galway*  
**Semester I Examinations 2005 / 2006**

GX 0102

**Exam Code(s)** 3BC1, 4BC2, 4BC3, 4BC4, 4BC5, 1EM1, 1OA1  
**Exam(s)** B.Comm., B.Comm. (Language), Erasmus, Occasional

**Module Code(s)** EC301  
**Module(s)** Irish Economy (Commerce Group)

**Paper No.** 1  
**Repeat Paper**

**External Examiner(s)** Professor Vincent Munley  
**Internal Examiner(s)** Mr. Brendan Kennelly  
Dr. Alan Ahearne

**Instructions:**

Please answer 3 questions.

**Duration** 2 hours  
**No. of Pages** Cover Page + 2  
**Department(s)** Economics  
**Course Co-ordinator(s)** Dr. Alan Ahearne

**Requirements:**

MCQ  
Handout  
Statistical Tables  
Graph Paper  
Log Graph Paper  
Other Material

### Question 1 (20 percent)

“The current high level of wages in Ireland threatens our economic prosperity.” Discuss this statement.

### Question 2 (40 percent)

#### Attempt 8 of the following 10 problems

- (a) Assuming an aggregate production function,  $Y = A K^\alpha L^{(1-\alpha)}$  prove that capital's share of income is given by  $\alpha$ .
- (b) How is Ireland's real effective exchange rate calculated? In what sense does the real effective exchange rate provide a measure of Ireland's competitiveness?
- (c) What factors might explain the recent poor performance of labour productivity in Ireland?
- (d) “Inflation differentials within the euro area imply different real interest rates across countries and therefore have a destabilising impact on national economies.” Briefly explain this statement.
- (e) Does the downturn of the Irish economy that followed the oil shocks in the 1970s qualify as a “great depression” according to the Kehoe-Prescott definition?
- (f) Explain why comparing houses price and rents might provide a useful benchmark for valuing housing.
- (g) Explain what is meant by the labour force participation rate. Broadly speaking, what has happened to labour force participation rates in Ireland since 1990? How do female participation rates in Ireland currently compare to rates in other industrial countries?
- (h) Explain what is meant by “consumption smoothing.” In your answer, use the Special Savings Incentive Accounts as an example.
- (i) Using the theory of Purchasing Power Parity, explain how movements in exchange rates affect Ireland's inflation rate.
- (j) What does the co-movement of house prices, interest rates and macroeconomic aggregates in industrial countries tell us about the direction or extent of causality between these variables?

**Question 3 (40 percent)**

**Attempt 2 of the following 4 problems**

- (a) From the perspective of the sustainability of European Monetary Union, are divergences in economic performance and inflation rates across countries in the euro area a cause for concern? What should policymakers do to tackle these divergences?
- (b) From your knowledge of the Quarterly National Accounts data, what were the main features of Ireland's GDP growth performance in the second quarter of 2005? Which components of aggregate expenditure performed well and which components performed poorly? What factors might explain these performances?
- (c) "A crash in Irish house prices is inevitable." Discuss this statement.
- (d) Should Ireland's spectacular growth in the 1990s be more appropriately thought of as "delayed convergence" or as a "regional boom"? What evidence is there for and against these two alternative perspectives on the Celtic Tiger era?