

OLLSCOIL NA hÉIREANN, GAILLIMH  
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 1999

**ECONOMICS PAPER 1**  
1<sup>st</sup> B.A. (Economic and Social Studies)

Professor M. P. Cuddy  
Professor Frank Stephen  
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. Income elasticity of demand
  2. The determinants of price elasticity of demand
  3. The Law of Diminishing Marginal Returns
  4. Normal and supernormal profits
  5. The features of a perfectly competitive industry
  6. Oligopoly
  
2. (a) Using three suitable well-labelled diagrams, show the effects on equilibrium price and quantity of each of the following:
  - i. A increase in the cost of inputs
  - ii. An increase in the price of substitute goods
  - iii. An improvement in the level of technology

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- (b)
    - (i) On a fourth diagram show the effect of a price ceiling imposed by the government.
    - (ii) Briefly discuss who is affected and mention one potential consequence of the price ceiling.
    - (iii) Give a real-world example of a price ceiling.
  - (c) Illustrate graphically the effects of a minimum wage on the labour market.
3. (a)
  - i. What is a budget line? Draw a typical budget line.
  - ii. List and briefly explain the properties of indifference curves.
- (b) The overall effect of a price change can be broken down into two elements. Describe these two effects. Assume a normal good.
- (c) Sheila spends all her income on clothes and books. Both goods are normal. Clothes are on the horizontal axis. Illustrate her equilibrium position.
- Suppose the price of clothes decreases. Show the effect of this price change on the diagram and derive the demand curve for clothes.

**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. The Keynesian response to the Great Depression
  2. The functions of money
  3. The effectiveness of fiscal policy in Ireland
  4. Supply-side policies
  5. The current account of the Balance of Payments
  6. Exchequer Borrowing Requirement
  
2.
  - (a) Use the circular flow model of the economy to show how national income is determined in a closed economy.
  - (b) Outline some of the limitations of GDP as a measure of human welfare.
  - (c) Explain why GNP is a better measure of National Income in Ireland than GDP.
  
3. Using each of the three macroeconomic models (i.e. simple Keynesian model, IS/LM model and AD/AS model), and holding everything else constant, analyse fully the effect of an increase in government expenditure on:
  1. equilibrium output
  2. interest rates
  3. the price level
  4. employment and unemployment

**SECTION C**  
**Multiple Choice Questions (100 marks)**

Answers to this section must be written on the MCQ Answer Sheet and submitted along with your answer book. Please read the instructions on the answer sheet carefully. In the box **CANDIDATE NUMBER** write in your student ID number with a zero (0) in front. Negative marking applies. (5 marks for a correct answer, 0 marks for an unanswered question and a penalty of  $-1 \frac{1}{4}$  marks for an incorrect answer)

1. Which of the following will cause the demand curve for petrol to shift to the right?
  - (a) a fall in the price of petrol
  - (b) a rise in the price of cars
  - (c) a fall in the price of cars
  - (d) an increase in the supply of petrol
  
2. In the demand and supply diagram
  - (a) the equilibrium price clears the market
  - (b) prices adjusts automatically
  - (c) producers are assumed to be maximising revenue
  - (d) equilibrium is reached at the highest price
  - (e) both (a) and (b) above
  
3. The supply curve for milk is given by  $Q_s = 2P + 12$ . The demand curve is given by  $Q_d = 174 - 4P$ . Thus the equilibrium price (in pence) and quantity (in units) for milk is
  - (a) 33p and 57 units
  - (b) 4p and 132 units
  - (c) 27p and 66 units
  - (d) 132p and 4 units
  - (e) none of the above
  
4. Suppose the price of computers rises by 10%. Subsequently, there is a 15% fall in the demand for printers. Assuming all other things equal, the cross price elasticity of demand is
  - (a) 1.5
  - (b) .67
  - (c) -.67
  - (d) -1.5
  - (e) indeterminate

5. Indifference curves
  - (a) normally slope down to the right
  - (b) do not intersect
  - (c) are infinite in number
  - (d) represent different levels of utility
  - (e) all of the above
  
6. Moving to a lower indifference curve means
  - (a) a decrease in the price of one good
  - (b) a lower level of utility
  - (c) a higher level of utility
  - (d) that the two curves must cross
  - (e) all of the above
  
7. The law of diminishing marginal returns
  - (a) is a short-run concept
  - (b) sets in when the marginal product of the variable input begins to decline
  - (c) is reflected in the slope of the total product curve
  - (d) occurs when production is constrained by fixed factors of production
  - (e) all of the above
  
8. The profit-maximising output level is where
  - (a)  $Q_d = Q_s$
  - (b)  $MR = MC$
  - (c)  $TR = TC$
  - (d)  $AR < AVC$
  - (e) All of the above
  
9. Economic profit
  - (a) is the level of profit below which the entrepreneur will not supply his/her expertise
  - (b) is earned by the perfectly competitive firm in the long run
  - (c) is the same as accounting profit
  - (d) none of the above
  - (e) (a), (b) and (c) above
  
10. A perfectly competitive firm
  - (a) is the only producer in the market
  - (b) makes supernormal profits in the long run
  - (c) equates  $MR = MC = P$
  - (d) faces entry and exit restrictions
  - (e) none of the above

11. The difference between GDP and GNP is accounted for by
  - (a) savings
  - (b) indirect taxes
  - (c) net factor income from abroad
  - (d) net factor income from abroad and depreciation
  - (e) depreciation
  
12. Which of the following causes the level of investment by firms to increase
  - (a) the interest rate falls
  - (b) the interest rate rises
  - (c) future expected profits fall
  - (d) the money supply decreases
  - (e) both b and c
  
13. Which factor limits the size of the multiplier in an economy
  - (a) the propensity to buy imports
  - (b) the inflation rate
  - (c) expectations about future income
  - (d) all of the above
  - (e) none of the above
  
14. Which of the following is not one of the functions of money
  - (a) medium of exchange
  - (b) unit of account
  - (c) store of value
  - (d) measure of welfare
  
15. Expansionary monetary policy will cause
  - (a) the LM curve to shift out to the right and interest rates to fall
  - (b) the LM curve to shift out to the right and interest rates to rise
  - (c) lower output levels
  - (d) the IS curve to shift to the right
  - (e) higher interest rates
  
16. A decrease in government spending
  - (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. If the Irish pound gets stronger against the French franc, this means that
- (a) the Irish pound can buy fewer French francs
  - (b) Irish exporters to France will suffer and imports from France will be cheaper
  - (c) Irish exporters to France will be able to export more goods
  - (d) The Irish pound has depreciated against the French franc
  - (e) None of the above
18. If a country experiences consumer price disinflation, this means
- (a) consumer prices are falling
  - (b) consumer prices are stable
  - (c) all consumer prices are increasing slowly
  - (d) the rate of growth of prices is slowing down
  - (e) that producer prices must have fallen
19. Unemployment
- (a) can be divided into short-term and long-term
  - (b) is a waste of resources
  - (c) is not easy to measure
  - (d) will never be 0%
  - (e) all of the above
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)