

OLLSCOIL NA hÉIREANN, GAILLIMH  
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 1999

**ECONOMICS PAPER 2**

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

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**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. Cross-price elasticity of demand
  2. Price elasticity of demand and Total Revenue
  3. The relationship between marginal costs and average costs
  4. Economies of scale
  5. Monopolistic Competition
  6. Natural Monopolies
  
2. Suppose there are 1,000 hot-dog stands operating in New York city. Each stand has the usual U-shaped ATC curve. The market demand curve slopes downwards, and the market is in long-run equilibrium.
  - (a) Draw the current equilibrium for the market and for an individual hot-dog stand. (Two well-labelled graphs required, side-by-side)

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Now the city authorities decide to restrict the number of hot-dog stand licences to 800.

- (b) Show the effect of this on the overall market. Indicate on your graph the new market price and quantity.
- (c) Also show the effect of this action on one of the stands still in operation. (indicate new equilibrium price and quantity on your graph)

Suppose the city authorities decide to charge a fee for ownership of a hot-dog stand licence.

- (d) How will this affect the quantity sold by each stand?
- (e) How will this affect the profit earned by each stand?

3. (a) Explain what is meant by consumer surplus and producer surplus. Illustrate these surpluses on a simple diagram.

- (b) Consider a small open economy. The world price of t-shirts is £1. With no international trade the domestic price is £2. Illustrate the equilibrium position with free trade.

Now show the effect of a 50% tariff on imported t-shirts on your diagram. Show the new level of imports. How are domestic and foreign t-shirt producers affected by the tariff?

On a separate diagram show the consumer surplus before and after the introduction of the tariff. How does the tariff affect the welfare of domestic consumers?

- (c) What effects will the imposition of a tax have on the market for coffee? Illustrate clearly the effects of a tax on market price and quantity. Shade in the changes in overall surplus.

**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 simple Keynesian expenditure multiplier
2. The demands for money in the Liquidity Preference theory of interest rates
3. The Exchange Rate Mechanism (ERM)
4. EMU
5. The National Debt
6. Productivity

2. Define inflation. Discuss its measurement, causes and consequences.

In the context of the current global economic situation, discuss the outlook for inflation and the prospect of deflation.

3. (a) Define unemployment. Discuss three types of unemployment.
- (b) Compare the classical theory with the Keynesian theory of unemployment.
- (c) List some of the possible causes of high Irish unemployment during the 1980s.
- (d) Outline two methods of measuring unemployment in Ireland.

**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. The price of walkmans increases. Holding everything else constant
  - (a) there is movement up along the demand curve for walkmans
  - (b) the demand for tapes will fall
  - (c) the quantity demanded of walkmans falls
  - (d) the demand curve for tapes shift leftwards
  - (e) all of the above
  
2. An increase in the price of product X resulted in a decrease in demand for product Y. This indicates that products X and Y are
  - (a) substitute goods
  - (b) complementary goods
  - (c) inferior goods
  - (d) superior goods
  - (e) normal goods
  
3. If the price elasticity of a good is 2 and the price changes by 5%, quantity will change by
  - (a) 10 units
  - (b) 10 per cent
  - (c) 2.5 units
  - (d) 2.5 per cent
  - (e) none of the above
  
4. For a luxury good, income elasticity is
  - (a) Positive
  - (b) Negative
  - (c) Positive and greater than 1
  - (d) Negative and less than -1
  - (e) Both (a) and (c) above

5. The budget line
  - (a) shows the maximum combination of two goods that the consumer can purchase with given constraints
  - (b) is given by the consumer's income and the level of prices
  - (c) reflects the preferences of the consumer
  - (d) both (a) and (b) above
  - (e) both (a) and (c) above
  
6. The substitution effect of a price change is caused by
  - (a) increases in purchasing power
  - (b) a change in relative income
  - (c) a change in the relative price of a good
  - (d) changing tastes and preferences
  - (e) all of the above
  
7. Economies and diseconomies of scale account for the shape of the
  - (a) short-run average total cost curve
  - (b) average variable cost curve
  - (c) average fixed cost curve
  - (d) long-run average cost curve
  
8. The maximum loss a firm should experience in the short run is equal to
  - (a) zero
  - (b) total costs
  - (c) total variable costs
  - (d) total fixed costs
  - (e) none of the above
  
9. The market for natural gas in the Republic of Ireland is an example of
  - (a) a perfectly competitive market
  - (b) a monopoly
  - (c) an oligopoly
  - (d) imperfect competition
  - (e) none of the above
  
10. A perfectly competitive firm
  - (a) faces a horizontal demand curve for its product
  - (b) produces a unique product
  - (c) faces entry and exit barriers
  - (d) produces where  $P > MC$
  - (e) none of the above

11. Which of the following are all examples of leakages from the circular flow
  - (a) exports, taxes and savings
  - (b) savings, imports and transfer payments
  - (c) taxes, government expenditures and transfer payments
  - (d) imports, taxes and savings
  - (e) none of the above
  
12. In one year the change in GDP is £1,300. The change in government expenditures over the same year was £500. Investment in both years was £370, and nothing else in this closed economy changed. What is the value of the Keynesian expenditure multiplier?
  - (a) 1.67
  - (b) 1.52
  - (c) 3.51
  - (d) 2.60
  - (e) 0.38
  
13. Which of the following is not a component of the money supply
  - (a) currency
  - (b) savings accounts
  - (c) credit cards
  - (d) current accounts
  
14. In the Keynesian Liquidity Preference theory, the money supply
  - (a) is controlled by the commercial banks
  - (b) depends on the level of income
  - (c) is controlled by the Central Bank
  - (d) depends on the interest rate
  - (e) increases as expenditure increases
  
15. Which of the following is not an example of fiscal policy
  - (a) purchase of 1000 new garda cars
  - (b) income tax rate cut from 24% to 22%
  - (c) abolition of car tax
  - (d) Central Bank announces interest rate increase
  - (e) Government introduces property tax
  
16. Which of the following causes a movement along the aggregate demand curve
  - (a) and increase in the price level
  - (b) and increase in investment
  - (c) a decrease in the money supply
  - (d) a decrease in government spending
  - (e) an increase in autonomous consumption

17. The Current Account of the Balance of Payments is made up of
  - (a) trade, services, investment income, international transfers
  - (b) visible and invisible trade
  - (c) merchandise exports and merchandise imports
  - (d) flows of payments for purchases and sales of capital assets
  - (e) all inflows of money into the domestic economy
  
18. A substantial rise in the consumer price index means
  - (a) that the standard of living has fallen
  - (b) that a weighted average of prices for a particular set of goods and services has risen
  - (c) very little, because significant errors are large
  - (d) that all prices of consumer goods and services are necessarily higher
  - (e) none of the above
  
19. A current budget deficit is the result of
  - (a) rapid increases in government spending
  - (b) contractionary fiscal policy
  - (c) increases in the national debt
  - (d) current government revenue being lower than current government spending
  - (e) large-scale public investment expenditures
  
20. Productivity measures
  - (a) the growth of incomes per head
  - (b) the quantity of output per hour of labour input
  - (c) the total production of goods and services in the economy
  - (d) the quantity of output per worker
  - (e) none of the above