

OLLSCOIL NA hÉIREANN, GAILLIMH  
NATIONAL UNIVERSITY OF IRELAND, GALWAY

***REPEAT EXAM***

SUMMER EXAMINATIONS 1999

**ECONOMICS PAPER 1 (EC100)**

1<sup>st</sup> BComm, 1<sup>st</sup> BCorpLaw

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**Time Allowed: THREE HOURS**

**N.B. There are specific instructions for each of the FOUR sections. Please read them and the questions carefully in separate answer books. (Marks for each question are in parentheses.)**

**SECTION A: MICROECONOMICS**

**Answer ONE of the following questions (20 marks):**

1. Explain the price mechanism in the market economy. Use a demand and supply diagram when answering the question.

**OR**

2. Using appropriate diagrams, show how the short run supply curve for a perfectly competitive firm is derived from its marginal cost curve.

## SECTION B: MACROECONOMICS

**Answer ONE of the following two questions. (20 marks)**

**1) Define Inflation and answer the following questions.**

a) Distinguish between the following measurements of inflation: Consumer Price Index(CPI), Producer Price Index(PPI) and GDP Deflator.

Is there any relationship among these three measurements?

b) List and explain the causes of inflation.

c) Are price and wage controls effective? Why or why not?

d) Name and explain another government policy used to deal with inflation.

**OR**

**2) Define the long run and the short run as it relates to macroeconomics.**

a) What effect does monetary policy have in the short run? What effect does it have in the long run?

b) Draw a graph of the short run and long run Phillips curve. Explain the curve and use it to support your answer in part (a).

c) In your own opinion, given the Phillips curve, should the monetary policy-makers focus on inflation targeting or unemployment targeting?

## SECTION C: APPLIED ECONOMICS

Answer ONE of the following two questions. (20 marks)

1. Table 1 contains information on the unit price of electricity in Ireland and on the Consumer Price Index for the period 1985-1994.

**Table 1: Electricity Prices and the Consumer Price Index (CPI) 1985-1994**

<b>Year</b>	<b>Price per unit of Electricity (pence)</b>	<b>Consumer Price Index (1985 = 100)</b>
1985	7.5p	100.0
1986	7.7p	103.8
1987	7.0p	107.1
1988	6.7p	109.4
1989	6.5p	113.8
1990	6.4p	117.6
1991	6.3p	121.4
1992	6.3p	125.1
1993	6.3p	126.9
1994	6.2p	129.9

Sources: Statistical Abstract 1995, Central Bank Annual Report 1996.

- (a) What was the rate of inflation in 1991?  
(b) In which year, during the period 1988-1993, was inflation highest?  
(c) Calculate the real price of electricity for each year.  
(d) Draw a time series graph of the nominal and the real price of electricity. [A careful sketch will suffice so you do not require graph paper.] Write a brief commentary on this graph.

**OR**

2. The economic consequences of poor safety and illness in the workplace are substantial. By failing to recognise the costs involved (including indirect costs) firms risk making poor resource allocation decisions on safety and health issues. Discuss this statement.

## SECTION D: MULTIPLE CHOICE QUESTIONS

Answer the following twenty (20) multiple choice questions. Each is worth one (1) point; there is no negative marking. Place your answers in the answer book provided; number each answer.

1. In a planned economy
  - a.  $Q_d = Q_s$  at the market clearing price
  - b. the market is used to buy inputs and sell outputs
  - c. the what the how and the for whom are decided centrally
  - d. utility maximising consumers and profit maximising producers interact voluntarily to clear the market
  - e. both b and c above
2. In the demand and supply diagram
  - a. the equilibrium price clears the market
  - b. prices adjust automatically
  - c. producers are assumed to be maximising revenue
  - d. equilibrium is reached at the highest price
  - e. both a and b above
3. In the market for beef, a further BSE scare would (all other things equal)
  - a. shift the demand curve out to the right
  - b. result in lower prices
  - c. cause a movement up along the supply curve
  - d. shift the demand curve to the left
  - e. both b and d above
4. The recent price rises in property market in Ireland have been fuelled by
  - a. increases in the demand for housing
  - b. low mortgage rates
  - c. demographic trends
  - d. a limited supply of zoned and serviceable land
  - e. all of the above
5. The supply curve for LP's is given by  $Q_s = 24 + 1P$  and the demand curve is given by  $Q_d = 36 - 3P$ . The equilibrium price and quantity is
  - a. (24, 6)
  - b. (3, 27)
  - c. (27, 3)
  - d. (6, 24)
  - e. Indeterminate

6. Bread and butter probably have
  - a. high income elasticities of demand
  - b. negative cross-price elasticities of demand with respect to each other
  - c. very high price elasticities of demand
  - d. positive cross-price elasticities of demand with respect to each other
  - e. none of the above
7. 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
8. A substantial rise in the consumer price index means:
  - a. that it is more expensive for everyone to live
  - b. that a weighted average of prices for a particular set of goods and services has risen
  - c. very little, not really significant errors are large
  - d. that all prices of consumer goods and services are necessarily higher
9. If, when incomes rise by 5 percent, the quantity sold of a commodity rises by 10 percent, income elasticity is:
  - a. -2
  - b. 2
  - c. -1/2
  - d. 1/2
10. In searching for the lowest price of a particular good:
  - a. the longer one searches, the greater is the probability that the next price will be lower than those already discovered
  - b. the value of one's time should not affect the decision as to when to call off the search
  - c. the longer one searches, the smaller is the probability that the next price will be lower than those already discovered.
  - d. One is wasting time, since you always get what you paid for
11. The difference between economic profits and normal profits is that
  - a. normal profits are smaller
  - b. normal profits are necessarily larger for all firms
  - c. normal profits are part of opportunity cost, whereas economic profits are returns in excess of opportunity costs
  - d. normal profits take into account market power; economic profits do not.

12. Which of the following necessarily declines continuously?

- a. marginal cost
- b. average fixed cost
- c. total fixed cost
- d. average variable cost

13. Demand management policies

- a. were advocated by Keynes
- b. refer to boosting the economy during recessions and slowing the economy during booms
- c. are always and everywhere effective
- d. both (a) and (b)
- e. both (a) and (c)

14. An increase in the price of foreign goods will cause

- a. the aggregate demand curve to shift down and to the left.
- b. the aggregate demand curve to shift up and to the right.
- c. the aggregate supply curve to shift up and to the left.
- d. the aggregate supply curve to shift down and to the right.
- e. a movement along the aggregate demand curve.

15. An increase in the interest rate will cause

- a. the aggregate demand curve to shift down and to the left.
- b. the aggregate demand curve to shift up and to the right.
- c. the aggregate supply curve to shift up and to the left.
- d. the aggregate supply curve to shift down and to the right.
- e. a movement along the aggregate demand curve.

16. Under the Maastricht Criteria, countries wishing to join the Euro must do which of the following:

- a. promise never to borrow money for deficits
- b. always run a budget surplus
- c. keep the size of any deficit less than 3%
- d. keep the size of any deficit less than 1%
- e. none of the above

17. In a small open economy like Ireland, which of the following limits the effects of fiscal policy:

- a. the high amount of exports
- b. the large number of tourists entering the country
- c. the high prices of houses
- d. the low amount of imports
- e. the high propensity to spend income on imports

18. Expansionary Fiscal Policy is used to
  - a. lower the price level
  - b. lower the amount of national income
  - c. increase the amount of exports
  - d. increase the money supply
  - e. increase Aggregate Demand and GDP
19. The following is not an example of frictional unemployment:
  - a. a person who is between jobs.
  - b. a university graduate who is just entering the workforce.
  - c. a hotel worker who does not work after the tourist season.
  - d. both (a) and (b)
  - e. none of the above
20. The reserve requirement refers to
  - a. the amount of foreign reserves held by the Central Bank.
  - b. the fraction of deposits a bank must keep on reserve.
  - c. the requirement for exchange rate controls
  - d. the interest rate a bank charges customers.
  - e. the interest rate the Central Bank charges other banks.