

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

REPEAT EXAM

SUMMER EXAMINATIONS 1999

ECONOMICS PAPER 2 (EC100)

1st BComm, 1st 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 two questions. (20 marks)

1. Define price elasticity of demand. Explain the determinants of price elasticity of demand. How does price elasticity of demand differ from income elasticity of demand?

OR

2. Using the substitution and income effects, explain how a rise in the price of an inferior good reduces the quantity demanded of the good. Use an appropriate diagram.

SECTION B: MACROECONOMICS

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

- 1) The two main schools of thought in macroeconomics studied were Keynesian economics and Neo-classical economics.
 - a) What is the historical background behind the popularity of each school of thought?
 - b) Explain the differences between Keynesian economics and Neo-classical economics regarding their view on how a government can increase the wealth of a country.
 - c) What policy recommendations does each of these schools of thought propose?

OR

- 2) As a member of the European Union and due to its joining the Euro on January 1, 1999, Ireland's economy is tied closely to Europe's.
 - a) What are the Maastricht criteria regarding budget deficits and debts?
 - b) What are the limitations for Ireland's fiscal and monetary policy given its EU membership and adoption of the Euro?
 - c) What difficulties for Ireland do you foresee because the U. K. has not adopted the Euro?
 - d) Given the limitations you have listed above, what policies are still available to the Irish government to influence the economy? Explain your answer.

SECTION C: APPLIED ECONOMICS

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

1. The case study "Meat sales show dramatic fall" describes how meat sales in butchers' shops around the country have dropped by almost a third although prices have remained unchanged.
 - a) Illustrate the effects of declining sales on the profit margins of the typical butcher's shop. (Assume that the industry is one of perfect competition).
 - b) How should the industry adjust to this situation?
 - c) The government decides to give financial assistance, in the form of a cash grant to each firm. Describe the effect that this assistance will have on the firm, the industry, and on market prices. Should the government provide this kind of help to firms that are experiencing difficulties?

OR

2. In the current debate over taxi licenses, the existing owners of licenses are unanimous in their protest against any increase in the number of licenses. Their argument is that an increase in the number of licenses, by increasing competition for customers, would affect their livelihood.
 - a. Is their economic argument correct?
 - b. Illustrate how the two markets; the 'market' for new licenses and the market in existing licenses are inter-related.
 - c. Who would be the gainers and who would be the losers if the number of licenses issued were expanded and at a nominal fee?
 - d. Would a decision to allow fares to increase make any difference to the argument?

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 the indifference-preference analysis of consumer choice theory
 - a. consumers set out to maximise their level of satisfaction
 - b. preferences must satisfy the law of transitivity, by assumption
 - c. utility is constant along any given indifference curve
 - d. consumers rank alternatives according to their preferences
 - e. all of the above
2. The law of demand states
 - a. If price rises, the quantity demanded falls
 - b. If the price rises then demand must also rise
 - c. If the price rises market forces come into play forcing price back down
 - d. none of the above
3. For a Giffen good,
 - a. the demand curve slopes upwards
 - b. the supply curve slopes upwards
 - c. the substitution effect is outweighed by the income effect
 - d. both a and c above
4. A change in which of the following would cause a movement along the supply curve
 - a. technology
 - b. price
 - c. number of sellers
 - d. expectations of future prices
5. The law of diminishing returns
 - a. is a short run concept
 - b. sets in when the marginal product of the variable factor 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
6. Which of the following is not a property of indifference curves?
 - a. combinations of goods on the one indifference curve yield the same level of satisfaction to the consumer
 - b. indifference curves reflect income and price constraints
 - c. indifference curves slope downwards from left to right
 - d. indifference curves do not intersect

13. 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.
14. An increase in the money supply will effect the economy in the short term by,
 - a. increasing consumption and raising the interest rate.
 - b. increasing consumption and lowering investment.
 - c. decreasing consumption and lowering investment.
 - d. increasing consumption and raising investment.
 - e. decreasing consumption and lowering investment.
15. The Central Bank has all of the following tasks except
 - a. determining the money supply.
 - b. regulating banks.
 - c. setting fiscal policy.
 - d. acting as a lender to the government.
 - e. acting as a lender of last resort to other banks.
16. Which of the following will cause long run aggregate supply to shift outwards and to the right?
 - a. an increase in taxes
 - b. a decrease in the labour force
 - c. an increase in the capital in an economy
 - d. an increase in government spending
 - e. both (b) and (d)
17. Ireland's monetary policy is limited because
 - a. there are a high degree of exports.
 - b. the government is currently running a surplus.
 - c. Ireland is a member of the Euro.
 - d. the Central Bank is politically independent.
 - e. there are no limitations to monetary policy.
18. The current account measures
 - a. all monetary transactions between the home country and the rest of the world.
 - b. the amount of all visible and invisible trade.
 - c. the amount of inflows and outflows of capital or assets.
 - d. the amount of the government's budget deficit or surplus.
 - e. the current level of prices in the economy.

19. Money supply in Ireland
- a. is varied with the level of GDP.
 - b. is fixed and determined by the government.
 - c. varies depending on the politicians in power.
 - d. is fixed and determined by the Central Bank.
 - e. is determined by the level of foreign investment.
20. One of the reasons given for high European unemployment is
- a. hysteresis: the economies are accustomed to high unemployment.
 - b. greater labour market inflexibility in Europe.
 - c. stronger European trade unions.
 - d. more generous social benefits in Europe.
 - e. all of the above