

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

CHRISTMAS EXAMINATIONS 1999

ECONOMICS I - EC 871
ECONOMICS - EC 507
Diploma in Business Studies
Master's in Information Technology

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Time Allowed: 2 Hours

There are two parts to this exam. Total 100 marks. Answer all questions in the booklet provided. Do NOT answer questions in point form.

In Part A, answer **20 of the 25** short-answer questions (3 marks for each question for a total of 60 marks). Only the first twenty questions answered will be marked.

In Part B, choose **1 out of the 2** newspaper articles to analyse(40 marks).

PART A. Answer 20 of the following 25 questions. Each question is worth 3 marks.

1. What is the opportunity cost of seeing a movie?
2. What are the two aspects of efficiency?
3. What does it mean for a market to be competitive?
4. Give an example of a factor which influences the quantity of a good that buyers demand and explain how the factor influences quantity demanded.
5. Give an example of a factor which influences the quantity of a good that sellers supply and explain how the factor influences quantity supplied.
6. Describe one characteristic we assume about a rational consumer and give a counter example.
7. Explain the relationship between total revenue and the price elasticity of demand.
8. What do we call a good whose income elasticity is less than zero?
9. How does a tax on a good affect the price paid by buyers, the price received by sellers and the quantity sold?
10. What determines how the burden of a tax is divided between buyers and sellers?
11. In a supply-and-demand diagram, show producer and consumer surplus in the market equilibrium.
12. What is the relationship between two goods if their cross-price elasticity is greater than zero?
13. What is the motivation behind offering managers share options?
14. What are the three rules of profit maximisation?
15. Define sunk costs and give an example.
16. What are the necessary criteria before a monopolist can price discriminate?
17. Give three reasons for the existence of economies of scale.
18. If the members of an oligopoly could agree on a total quantity to produce, what quantity would they choose?
19. Why are market outcomes inefficient in the presence of externalities?

20. Why does the free-rider problem induce the government to provide public goods?
21. Give four solutions to the Tragedy of the Commons.
22. Give the two problems that arise when regulators tell a natural monopoly that it must set its price equal to marginal cost.
23. Give two reasons why more educated workers earn more than less educated workers.
24. Define the term 'compensating differential' and give an example.
25. What is the difference between normative analysis and positive analysis?

PART B. Choose 1 of the 2 following newspaper articles to analyse. Write a letter to the editor stating your position on the issues in the article. In your letter, explain the issues presented in the article using economic theory. Economic theory consists of the theory behind a supply-and-demand diagram, the discussion of market power and the discussion of market failures, for example. In your justification of your position, distinguish between the normative and positive aspects.