



EXAMINER'S REPORT

AUGUST 2001

ECONOMICS

General Comments

Over half of the candidates achieved D or higher grades. Many of those who got an E or F failed to answer 5 questions. Some candidates approached the answers as if they were writing general essays, and showed no particular or specific knowledge. Economics is a technical subject, though not overly technical at this level.

Question 1 was generally poorly answered. The answers were too short, and missed important points. In discussing housing no one mentioned the high income elasticity in this market. Congestion is an externality and is welfare reducing.

Question 2 is one that people can score very well with, if they know the material. People were asked to define, and explain the importance. The first part should be automatic, but then a little bit of thought does the rest. The definitions need to be learned.

Question 3 involves the law of diminishing returns for the short term, and economies and diseconomies of scale for the long-run.

In **Question 4** the misallocation of resources is the issue.

There were only two answers to **Question 5**. The first part is really to show that since the money multiplier is inverse of cash ratio, then the size of the cash ratio is important in determining the final money supply. The Government is involved since there is an inherent clash between profitability and liquidity.

Question 6

The main reason why fiscal policy is difficult to implement is because of timing and forecasting

Question 7 was about the ECB. The target is 0-2% to be realised by interest rate changes.

Question 8

The difference between GDP and GNP is net factor income. Mostly it has little significance, since without multinationals output would be less.