



## EXAMINER'S REPORT

AUGUST 2002

### ECONOMICS

No candidate achieved an A while there was just 1 B, and 6 Cs. The most frequent grade was a D, though this was closely followed by failures. As has been the pattern in recent years those who failed generally did badly on all questions, or answered less than the 5 required. This suggests lack of knowledge. For those achieving a D there were a few really good answers, but some spectacularly bad ones, indicating that some of the course has been absorbed, but there are still some big holes. This is not ideal. The main criticism is where students were asked for an opinion, as the opinions did not seem to be based on analysis.

This was very evident in the first question, where the approach to Minimum Wage legislation was that it was a “good thing”, rather than an analysis using Supply and Demand. In this question it was clear that people did not understand the concept of market failure, while they applied long-run growth to the firm rather than the economy. The latter was however treated leniently.

The approach to Question 2 also suffered somewhat from the same problem of opinion, though the most serious issue with the answers was the belief that since the demand for cigarettes is price inelastic, an increase in tobacco prices will have no effect on demand. It will, but the effect is muted, and depends on size of the elasticity. This question also produced the classic answer that if the price increases, because of tax increases, there will be an increase in supply, and then prices will fall back to their previous level with demand unchanged! This needs to be sorted out.

Question 3 was answered well, but Question 4 was generally not. There is a need to define the concept of scale, and to discuss what happens to output as factor inputs increase, and then the reasons. Question 5 was answered reasonably, except for the second part, where it was assumed that price cutting was the issue, whereas the real problem is producing more than agreed, thus pushing down prices for all. Also, in the first part, it is possible to show competitive market excess profits as zero, but with the cartel there are monopoly profits.

The money supply process is crucial to understanding money and banking and monetary policy. Students seem to have a poor grasp of the concept. The cash ratio is regulated, because, as in the past, banks faced with a clash between profitability and liquidity chose the former, and were unable to meet customers' cash requirements, with unfortunate consequences. Questions 7 and 8 were generally poorly answered. In question 7 no one mentioned the automatic stabilisers, and in Question 8 no one mentioned the euro exchange rate as a factor.