



Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, MAY 8, 2002. TIME: 2.00 pm - 5.00 pm

Please attempt **FIVE** questions.

(If more than the specified number of questions are attempted, delete those you do not wish to have marked. Otherwise the Examiner will mark the **FIRST** five questions in your Answer Book).

All questions carry equal marks.

Do **NOT** repeat question in answer, but show clearly the number of the question attempted on the appropriate page of the Answer Book.

1. Write notes on **two** of the following:
 - The production possibilities frontier
 - The effect on cigarette consumption of an increase in the tax on cigarettes
 - The impact on food prices of a return to organic farming
2. There has been a decline in the price of a product. Explain, with supply and demand diagrams, what market conditions could give rise to this.
3. Define
 - Price elasticity (3 marks)
 - Cross price elasticity (3 marks)
 - Income elasticity (3 marks)

Explain the importance of price elasticity to firms. (11 marks)
4. Explain, using appropriate diagrams, why competitive industry produces optimal outcomes from society's perspective.
5. Show with the aid of a diagram how the output and price outcomes under a monopoly differ from those of a competitive industry.
6. Describe the money supply process, using a cash ratio of (i) 10% and (ii) 20%. (15 marks)

What conclusions can you draw about the importance of the cash ratio to the money supply process? (5 marks)

P.T.O.

7. Explain how fiscal and monetary policies can be used to influence an economy in a boom. (15 marks)
Why are such policies difficult to implement? (5 marks)
8. The ECB has an inflation target of 0-2 % for the eurozone. How does it propose to realise this target?