The Marketing Institute

EXAMINER'S REPORT

MAY 2002

ECONOMICS

General Comments

Approximately two thirds of candidates received marks of 40 and over, with a small number getting less than 10 marks. The overall standard, on an impressionistic basis, seemed higher than last year, but there were still some who knew very little. There were some interesting aspects of the answers: in particular I noticed some excellent answers to some questions, but very poor answers to others, by the same student. The students also seemed to know more about the economy than in previous years.

Question 1

The PPF question was answered well. It is worth noting that it can shift out with investment in human and physical capital. The demand for cigarettes is price inelastic at current prices. There is some level at which it will become price elastic with a straight line demand curve. Inelastic does not mean that that there will be no fall in demand with an increase in price, unless it is perfectly inelastic. No one mentioned smuggling - one of the consequences of the big increase in cigarette prices in the UK, with smuggling into the North from the Republic. A shift to organic farming shifts the supply curve to the left and increases prices. Things will not settle down!

Question 2

This question asked how prices could fall. The answer was very simple: A shift to the left in the demand curve, a shift to the right in the supply curve, a combination of both, and an initial situation where there was excess supply. Most answers were hopelessly confused.

Question 3

This was generally answered well. Give a formula to show the precise meaning.

Question 4

This was answered reasonably well. It is important to stress that AC is a minimum in long-run equilibrium, and that Price =MC

Question 5

This was also answered reasonably well, but could have been improved by considering the outcome on one diagram, with the MC curve doubling as the supply curve for the competitive industry.

Question 6

Mostly done well, except for some who think that a bank can lend €1,000 if it gets a new deposit of €100 when the cash ratio is 10%. This is the end of the process, and they should be able to see it by using the balance sheet, with the requirement that Assets=Liabilities.

Question 7

Traditional counter-cyclical fiscal policy would be contractionary in a boom, while monetary policy would see an increase in interest rates.

Question 8

The primary instrument of the ECB is interest rates. If inflation >2% then increased interest rates dampen demand and hence price inflation