



## Foundation Certificate in Marketing - Stage 1

### ECONOMICS

WEDNESDAY, AUGUST 18, 2004. 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. Discuss the economic issues that arise in the case of **two** of the following:
  - Raising the school leaving age
  - Restrictions on the size of grocery stores
  - Causes of recession
  
2. Explain the very rapid increase in house prices in recent years in spite of a very significant increase in the number of new houses completed.
  
3. Answer (a) **or** (b)
  - (a) Define **each** of the following:
    - Price elasticity of demand
    - Cross price elasticity
    - Income elasticity
  
  - (b)
    - (i) When the price of a product falls from €20 to €18 the demand increases from 20 units to 25. Estimate the price elasticity.
  
    - (ii) Suppose that this good has a complement, and following the price fall the demand for the complement increases from 20 units to 30, what is the cross price elasticity?
  
    - (iii) If a person's income increases from €10,000 to €12,000 and the demand for a good increases from 10 units to 15 units as a consequence, what is the income elasticity of the good?

**P.T.O.**

4. Answer (a) **or** (b)

(a) Discuss the benefits to an economy that arise from competitive markets.

(b) The demand for a product is given by

$$D = 10 - 0.5P$$

While supply is given by

$$S = 1 + P$$

What is the equilibrium price and quantity in the market for this good? Suppose a tax of €1 is put on each unit of the product, what is the new equilibrium price and quantity? How does the new price compare with the old for both producer and consumer?

5. A monopolist cannot determine both price and output. Explain, using an appropriate diagram.

6. Using a numerical example, and taking a cash ratio of 20 per cent describe the money supply process.

7. Discuss the factors that cause budget deficits to worsen.

8. Why did inflation fall so sharply in Ireland towards the end of 2003?