Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, MAY 5, 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:
   Minimum Wage Legislation
   Immigration
   Fees in higher education

2. The 2002 Census indicated that average household size was 2.95 persons per household, compared with 3.28 in 1996. What factors lie behind this change? Discuss the implications for house building and house prices if there are further declines over the next 10 years.

3. Answer (a) <u>**or**</u> (b)

   (a) Explain the importance of **each** of the following:
   Price elasticity of demand
   Cross price elasticity
   Income elasticity

   (b) (i) When the price of a product falls from €10 to €9 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 40 units to 50, what is the cross price elasticity?

   (iii) If a person's income increases from €20,000 to €25,000 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) **<u>or</u>** (b)

(a) Show how perfectly competitive markets provide an optimal outcome in terms of price, costs and output.

(b) The demand for a product is given by
D = 7-0.5P
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. What effect does price control have on a monopolist's output, price and profit? Use appropriate diagrams to illustrate your answer.

6. Using a numerical example, and taking a cash ratio of 10 per cent describe the money supply process.

7. The budget deficits of some of the larger members of the Eurozone have increased beyond the limits set in the Stability and Growth Pact. Explain why this has happened. In the light of your answer does it make sense to apply the Stability and Growth Pact rules rigidly?

8. After several years when inflation in Ireland was running at about 5 per cent, the most recent data indicate a rate below 2 per cent. Can you explain the fall?