Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, AUGUST 17, 2005. 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:
   A reduction in the proportion of those aged 18-22 attending third level education
   Ending restrictions on the size of grocery stores
   A prolonged recession

2 Explain why Governments intervene in the housing market.

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

   (a) Write short notes on **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 €15 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 25, 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 14 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+0.5P

   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. Show, using an appropriate diagram, the output, profits and price charged by a profit maximising monopolist. How can these three outcomes be changed by policy makers?

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

7. Discuss the factors that cause budget deficits to improve, without any policy intervention by governments.

8. Why is inflation in Ireland so low now, compared with the early part of the decade?