Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, MAY 11, 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 ban on advertising tobacco products
   An increase in unemployment benefits
   Charges for refuse collection

2 The number of new houses built and sold over the past three years has exceeded the natural population demand. Can you explain how this has occurred and what are the likely medium term consequences?

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

   (a) Define and 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 €5 to €4 the demand increases from 20 units to 30. 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 €30,000 and the demand for a good increases from 10 units to 20 units as a consequence, what is the income elasticity of the good?

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

   (a) Show how perfectly competitive markets provide an optimal outcome in the long run.

   (b) The demand for a product is given by
   D = 7-0.5P
   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 is the burden of the tax shared between producer and consumer?

5. Some monopolies arise because of patents. What happens to output, prices and profits when patents run out?

6. Describe the money supply process, and illustrate this process with a numerical example.

7. The conventional wisdom now is that governments should no longer use fiscal policy to bring economies closer to potential output. Explain why.

8. What factors determine the inflation rate in Ireland?