Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, AUGUST 16, 2006. 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 supply of oil in the short-run
   An increase in the number of GPs in the country
   A prolonged decline in agricultural prices

2. Explain why the housing market is so important to Government. What are the main problems faced in this market? What interventions are likely to improve the situation?

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

   <u>OR</u>

   (b) (i) When the price of a product falls from €20 to €10 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 between the two goods?
   (iii) If a person's income increases from €10,000 to €12,500 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) Explain why competitive markets are considered so beneficial for economies.

   OR

   (b) The demand for a product is given by
   D = 8-0.5P
   while supply is given by
   S = 2+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? Where does the incidence of the tax fall?

5. Show the impact of price control on the output, profits and price charged, of a monopolist.

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

7. What is meant by "automatic stabilisers" and how do the automatic stabilisers explain the course of the budget deficits and surpluses in Ireland over the past decade?

8. Explain the impact of the exchange rate on the inflation rate in Ireland.