



Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, MAY 17, 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:
An increase in the tax on tobacco
Childcare Support
An increase in oil prices
2. The level of immigration into Ireland is running at record levels. Discuss the impact of this immigration on the labour market and on the housing market.
3. Answer (a) **or** (b)
 - (a) Explain the importance of **each** of the following:
Price elasticity of demand
Cross price elasticity
Income elasticity
 - OR**
 - (b)
 - (i) When the price of a product falls from €10 to €8 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 60, what is the cross price elasticity?
 - (iii) If a person's income increases from €20,000 to €35,000 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) Show how perfectly competitive markets lead to average costs being at their minimum level in the long-run.
- OR**
- (b) The demand for a product is given by
 $D = 9 - 0.5P$
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. “A monopolist can sell all its output at whatever price it chooses”. Discuss.
6. Describe the money supply process, and illustrate this process with a numerical example. What role does a central bank play in this process?
7. Why should governments no longer use fiscal policy to bring economies closer to potential output?
8. Can you explain the big increase in the inflation rate in Ireland in the early part of the decade, and the decrease in more recent years?