



EXAMINER'S REPORT

MAY 2006

ECONOMICS

General Comments

In general the questions were answered well, though there were some peculiarities that need to be addressed.

The two numerical questions 3(b) and 4(b) were done well, and this is the main reason why the overall results were so good. However, people are prone to arithmetic mistakes. In the second part of **Question 4**, where the impact of a tax was to be estimated, several people assumed that the tax was borne by the producer, but this is not a valid assumption. The supply curve must be modified, setting $P=F(Q)$ and subtracting the tax from the original equation. The equations must then be solved as in the first part of the question. This is very straightforward.

Question 1 had three possible parts, answer two. There was some confusion about what inelastic demand means: inelastic demand does not mean that consumption does not change. If demand is inelastic then tax revenue from cigarettes tax increases leads to an increase in government revenues. Both in the case of cigarettes and oil the issue is that expenditure on other items will fall. Childcare support will increase the supply of labour.

Question 2 was about the impact of immigration on labour and housing markets. So far there has been no overall displacement, as unemployment remains very low, and there is an increase in housing demand, either directly or indirectly through the rented sector.

Question 5 was very easy, but badly answered. The critical point to note is that the demand curve is downward sloping, so that the monopolist cannot charge whatever he wants for the output he decides to produce. He can fix price or output but not both- if he could then he would produce 1 unit and charge a few billion for it.

Question 6 was about the money supply process. People need to think about this: text and numbers are required. It is not good enough to say "and so on". I need a conclusion.

Question 7 is about fiscal policy. The issue here is timing and lags.

Finally **Question 8** could benefit from some discussion of the exchange rate, as well as domestic demand.

Overall I think a great deal of progress has been made in relation to teaching, understanding and results in recent years.