Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, AUGUST 15, 2007. 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 amount of greenhouse gas emissions
   An increase in the number of hospital consultants in the country
   A fall in the price of oil from $75 to $50 a barrel

2. Explain why house prices have risen so much in Ireland in the past 15 years. Are these factors now beginning to unwind, or are house prices likely to continue to increase rapidly for the foreseeable future?

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

   (a) Write short notes explaining 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 €20 to €15 the demand increases from 20 units to 25. Estimate the price elasticity.
   (ii) Suppose that this product 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 between the two goods?
   (iii) If a person's income increases from €10,000 to €15,000 and the demand for a product increases from 10 units to 18 units as a consequence, what is the income elasticity of the product?

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

   (a) Explain why from competitive markets are considered so beneficial for economies.

   (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 product? 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. Governments sometimes impose a maximum price that a monopolist can charge. Show, using an appropriate diagram what the impact would be on the monopolist.

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

7. Explain the logic behind the recommendation that governments should let the automatic stabilisers work, but give up discretionary policy?

8. Explain why inflation in Ireland has begun to increase again.