



## Foundation Certificate in Marketing - Stage 1

### ECONOMICS

WEDNESDAY, MAY 2, 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:  
Enforcement of drink driving regulations  
A ban of point-of-sale advertising of tobacco products  
A reduction in oil prices
2. Explain why the increase in the number of workers migrating to Ireland from the new accession countries did not lead to an increase in unemployment in Ireland.
3. Answer (a) **or** (b)
  - (a) Explain what is meant by **each** of the following:  
Price elasticity of demand  
Cross price elasticity  
Income elasticity
  - (b)
    - (i) When the price of a product falls from €10 to €8 the demand increases from 20 units to 28. Estimate the price elasticity.
    - (ii) Suppose that this product 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 product increases from 10 units to 15 units as a consequence, what is the income elasticity of the product?

**P.T.O.**

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

(a) Show how perfectly competitive markets give rise to optimal outcomes in terms of price, output and costs.

(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 product?

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. Monopoly is less efficient than competitive markets. Discuss.

6. Using a cash ratio of 10 per cent illustrate the money supply process. Why are central banks concerned with the cash ratio?

7. Explain the difficulties with the successful implementation of discretionary fiscal policy. Are these difficulties likely to be overcome?

8. Inflation in Ireland has once again increased rapidly relative to that of other Eurozone countries. Can you explain why?