EXAMINER'S REPORT

MAY 2007

ECONOMICS

General Comments
The general standard was good, though, as always, there were some old mistakes revisited.

Question 1 is essentially asking students to apply their economics to real-world issues. The answers tended to be single issue focused. For instance enforcement of drink-driving regulations is not just about the cost of enforcement, or the drop in drink sales, or the drop in government revenue, it is about all of these things plus the reduction in accidents and the welfare gain from this.

Question 2 simply requires an acceptance that the economy was fully employed and operating above potential, so that immigration met the labour shortfall, and allowed the economy to operate at this higher level. Potential output increased.

Question 3 (b) generally answered well, though several arithmetic errors. This is primarily a question of practice.

Question 4 (b) was also generally answered well, but again some arithmetic errors. The second part of the question posed problems for some, and there was a tendency to assume the answer-all the tax was borne by the consumer, so that the price increased by the amount of the tax. This is only the case when the demand curve is vertical and we know it is not from the demand equation. The new supply function with the tax must be estimated and then the supply and demand equations solved.

Question 5 was answered well.

Question 6 re money supply process still needs some work. First there is no need to provide 3-4 pages of numbers-a simple table will suffice, but it must be completed off, so that the final outcome is evident. Also a simple verbal description should be given to explain what is going on with the numbers. The reason central banks worry about the cash ratio is because of prudential issues. They do not want a run on banks short of resources, even though they are willing to provide liquidity in a shortfall. Also central banks do not generally use the cash ration to control the money supply-since this suggests two targets from one instrument. It happens in some countries where money supply is potentially out of control and inflation is hyperinflation.

Question 7 was answered well.

Question 8 needs more work. The fundamental causes of the inflation in Ireland are the too rapid growth in the economy and changes in the exchange rate, along with special factors-oil price increases for example.