Foundation Certificate in Marketing - Stage 1

ECONOMICS

WEDNESDAY, AUGUST 13, 2008. 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 tax on fuel in order to reduce greenhouse gas emissions
    An increase in the number of private hospitals
    The return home of people from the new accession states who had moved to Ireland

2. The boom in the housing market was partly due to people purchasing houses in the expectation of continued future price increases, so that a profit from sale could be realised in the future. The 2006 census counted 170,000 empty houses (not holiday homes which are counted separately) reflecting this characteristic of the housing market.
   Now that house prices are declining what impact would you expect this overhang of houses to have on future house prices and the production of new homes?

3. Answer (a) **or** (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 €2 to €1.5 the demand increases from 20 units to 25. Estimate the price elasticity.

    (ii) Suppose that this good 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 €100,000 to €150,000 and the demand for a good increases from 10 units to 20 units as a consequence, what is the income elasticity of the good?

P.T.O.

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

   (a) Explain why competitive markets lead to lower prices and greater output than arise in monopolistically competitive markets.

   (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 €0.5 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. Explain the advantages to firms of forming a cartel, and the disadvantage to consumers of the cartel. Why do cartels tend to break up?

6. In addition to monetary policy concerns central bankers need to consider the financial stability of the whole system. Is monitoring the cash (reserve) ratio sufficient for this purpose?

7. What problems have arisen with the application of discretionary fiscal policy in the past? Are these problems insurmountable?

8. Inflation in Ireland is running well ahead of that in other countries in the Eurozone. What are the implications of this for competitiveness and output in the medium-term?