Foundation Certificate in Marketing - Stage 1

ECONOMICS

TUESDAY, MAY 19, 2009. 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 sustained decline in prices
   - A decline in house-building
   - A rise in unemployment

2 Explain why commodity prices have fallen so much over the past six months.

3. Answer **two** of the following:

   (i) Explain what is meant by price elasticity of demand. When the price of a product falls from €100 to €80 the demand increases from 20 units to 24 units. Estimate the price elasticity. What happens to total expenditure and comment on the result?

   (ii) Explain what is meant by cross-price elasticity. Suppose that a good has a complement, and following a 10% price fall the demand for the complement increases from 40 units to 50 units, what is the cross price elasticity?

   (iii) Explain what is meant by income elasticity. If a person's income decreases from €50,000 to €40,000 and the demand for a good decreases from 10 units to 6 units as a consequence, what is the income elasticity of the good? What type of goods are likely to be income inelastic and what are the implications of this for an economy experiencing a downturn?

P.T.O.

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

   (a) Show how in perfectly competitive markets in equilibrium P=MR=MC=AC and AC is a minimum.

   (b) The demand for a product is given by
   $D = 4-0.5P+Y$
   while supply is given by
   $S = 2+0.5P$

   Where Y is income and equals 10.
   What is the equilibrium price and quantity in the market for this good? 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. Using an appropriate diagram illustrate the price, output and profits of a monopolist. Why is it difficult to regulate monopoly?

6. Explain briefly the money supply process, indicating the importance of the cash ratio. What are the implications for this process of significant bad debts on loans?

7. The major economies of the world are now using fiscal policy to counter the declines in output across the world. Why is this now justified, whereas up to recently the general advice to governments was not to have an activist fiscal policy?

8. Explain why inflation in Ireland has fallen so much.