

UNIVERSITY OF BRADFORD

MSc BUSINESS ECONOMICS

MAN4134M

08 January 2013

13:00 – 15:00 hours

Main

This is a **CLOSED BOOK** examination

Answer any **THREE** questions. You **MUST** answer at least **ONE** question from **Section A** and at least **ONE** question from **Section B**.

All questions carry equal marks. Ensure that you make use of suitable graphs and/ or examples, as appropriate, while answering the questions. Please link your answers to suitable theory. You will lose credit if you simply answer these questions in a lay manner, without employing suitable formal concepts and/ or examples.

Section A

1. Discuss the concept of price elasticity of demand and explain how price elasticity of demand is related to total revenue. If demand is inelastic and consumers continue to purchase the product even if the price continues to increase, why don't firms continue to raise prices indefinitely?
2. Critically evaluate and contrast monopoly and monopolistic competition. Compare the potential for a monopolistic firm and a monopolistically competitive firm to earn positive economic profits in the short run versus the long run.
3. Discuss the key assumptions underlying both the demand and supply schedules. Using a suitable diagram, explain why doctors are paid more than nurses. Assuming an increase in demand for both doctors and nurses due to extra government investment, what will be the consequence of such increase in demand and investment?

Section B

4. Describe the functions of money and comment whether narrow money and broad money fulfil the functions of money. Define the term 'liquidity ratio' and comment whether it changes over time. Assuming banks only hold two types of assets, balances with the Bank of England and loans advanced to customers, discuss how banks create credit. How will changes in the liquidity ratio affect the process of credit creation?
5. Discuss each argument made for restricting trade (i.e. in support of protectionism) and provide a critical counter-argument for not restricting trade.
6. Critically discuss fixed and floating exchange rate systems and assess their relative advantages and disadvantages in light of recent events, including the 2007 financial crisis.

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