

EXAMINATION QUESTION PAPER: Reassessment, 2014

Module code:	EC5001
Module title:	Business Economics
Module leader:	Daniela Parker / Sue Tootoonchian

Date:	July/August 2014
Duration:	3 hours

Exam type:	Part Seen/Unseen, Closed
Materials supplied:	None
Materials permitted:	Calculators are permitted
Warning:	Candidates are warned that possession of unauthorised materials in an examination is a serious assessment offence

Instructions to candidates:	<p>Candidates will be required to answer ALL questions in Section A, and TWO questions in Section B.</p> <p>All questions in Section A carry 12 marks each. All questions in Sections B carry 26 marks each. A total of 100 marks are available for the whole paper.</p> <p>DO NOT TURN PAGE OVER UNTIL INSTRUCTED</p>
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SECTION A THE SEEN PART OF THE EXAMINATION

SECTION A (48%)

**There are FOUR questions. Please answer ALL questions.
Each question carries 12 marks.**

Section A:

1. Are the following statements true or false? Explain your answers.
 - a) The cross-price elasticity will always be positive. (4 marks)
 - b) The elasticity of demand is the same as the slope of the demand curve. (4 marks)
 - b) The supply of apartments is more inelastic in the short run than the long run. (4 marks)

2. Amici Box Company produces cardboard boxes that are sold in bundles of 1000 boxes. The market is highly competitive, with boxes currently selling for £100 per thousand. Amici's total and marginal costs are: $TC = 3,000,000 + 0.001Q^2$, $MC = 0.002Q$, where Q is measured in thousand box bundles per year.
 - a) Calculate Amici's profit maximizing quantity. Is the firm earning a profit? (4 marks)
 - b) Analyze Amici's position in terms of the shutdown condition. Should Amici operate or shut down in the short run? (4 marks)
 - c) What do you expect to happen to the equilibrium output level and profit in the long run? (4 marks)

3. By using graphs featuring utility and income, illustrate consumers' attitudes towards risk such as risk aversion, risk loving and risk neutral. (12 marks)

4. Define the concept of externality and classify whether the following are positive or negative externalities: a natural park, smoking, traffic, primary education. Explain possible solutions that allow the market to internalize the cost of an externality. (12 marks)