



## National College of Ireland

BA (H) in Accounting 1, BAHACC1

BA (H) in HRM 1, BAHHRD1

BA (H) in Business 1, BAHBMD1

Semester Two Examinations – 2009/10

4<sup>th</sup> May 2010

2.00pm – 4.00pm

---

### ECONOMICS 1

Dr Brendan O Rourke

Mr. Edward Anthony Murphy

This paper contains two sections:

Section A consists of 30 multiple choice questions. Each correct answer is worth 1 mark. The student should answer ALL of these questions. Total marks for this section is 30 marks. When answering this section please use the answer sheet provided.

Section B consists of FOUR long questions. Each question is worth 35 marks. The student must answer TWO of these questions. Total marks for this section is 70 marks.

Where appropriate use graphs to support your answers.

**Duration of exam:** 2 Hours

**Attachments:** None

You should answer **only the required number** of questions.

If you answer **more** than the required number of questions you should **cancel** (put a line through) the question(s) you do not want marked.

If you do not cancel extra questions, the examiner will mark the questions **in the order presented** in your answer book until the required number of questions have been marked.

## Section A

Please choose the most correct answer in each case. Please use the attached answer sheet for this section.

1. A simplified representation that is used to study the real situation is called:

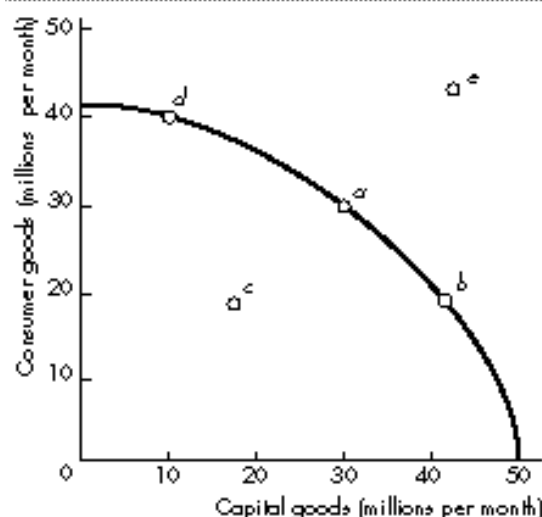
- a) A model
- b) A Production Possibilities Frontier
- c) An assumption
- d) None of the above are correct

2. The latin term *ceteris parabis* means

- a) 'false unless proven true'
- b) 'other things remaining the same'
- c) 'after this, then because of this'
- d) 'not correct even though it is logical'.

3. All economic questions and economic activity arise from

- a) cooperation.
- b) competition.
- c) trade.
- d) scarcity.



4. Refer to the production possibility frontier in the figure above. Which point indicates that resources are NOT fully utilized or are misallocated?

- a) Point a.
- b) Point b.
- c) Point c.
- d) Point e.

- 5 If the United States can produce more automobiles *only* by producing less of something else, then the United States
- must be producing at a point within its *PPF*.
  - must be producing at a point on its *PPF*.
  - has solved the problem of scarcity.
  - must be producing at a point outside its *PPF*.
6. From 9 a.m. to 10 a.m., Sean can sleep in, go to his economics lecture, or play tennis. Suppose Sean decides to go to the lecture but thinks that, if he hadn't, he would otherwise have slept in. The opportunity cost of attending the lecture is
- sleeping in and playing tennis.
  - playing tennis.
  - sleeping in.
  - one hour of time.
7. If bagels and croissants are substitutes, a decrease in the price of croissants will:
- increase demand for bagels
  - increase demand for croissants
  - decrease demand for croissants
  - increase demand for croissants and decrease demand for bagels
8. Which of the following does NOT have a direct impact on the supply of a typical good?
- cost of inputs
  - advertising
  - technology
  - number of producers of the product
9. A good is inferior if:
- when income increases demand remains unchanged
  - when income increases demand decreases
  - when income increases demand increases
  - none of the answer choices can happen
10. Excess supply occurs when
- the price is above the equilibrium price
  - the quantity demanded exceeds the quantity supplied
  - the price is below the equilibrium price
  - the quantity demanded exceeds the quantity supplied and the price is below the equilibrium price
11. Which of the following might shift the demand curve for cornflakes to the right:
- An increase in income
  - A decrease in the price of Weetabix, a substitute for cornflakes
  - a decrease in the price of cornflakes
  - an increase in the price of milk, a complement to cornflakes
12. Which of the following will definitely cause an increase in the equilibrium price
- an increase in both demand and supply
  - a decrease in both demand and supply
  - an increase in demand and a decrease in supply

d) a decrease in demand and an increase in supply

13. A shortage causes the

- a) demand curve to shift leftward.
- b) supply curve to shift rightward.
- c) price to fall.
- d) price to rise.

14. If the demand for a good X is inelastic then an increase in price will

- a) decrease total revenue
- b) increase total revenue
- c) leave total revenue unchanged
- d) increase the quantity demanded

15. For many goods the Price Elasticity of Demand increases over time after a price rise because

- (a) consumer incomes tend to increase over time
- (b) inflation causes all prices to increase over time
- (c) the ability to find close substitutes for the product whose price has increased, over time
- (d) none of the above

16: When price goes from €1.50 to €2.50, quantity supplied increases from 9,000 to 11,000 units. In this case the elasticity of supply is

- (a) 0.4
- (b) 0.8
- (c) 2.5
- (d) 4.0

17. All normal goods have

- (a) Cross-price elasticities of demand greater than 1.0
- (b) price elasticities of demand greater than 1.0
- (c) negative income elasticities of demand
- (d) positive income elasticities of demand.

18. A perfectly price-inelastic demand curve is:

- a) Horizontal
- b) Downwards sloping
- c) Upwards sloping
- d) Vertical

19. In economics, the short-run is a time period

- (a) of one year or less
- (b) in which all inputs are fixed
- (c) in which all inputs are variable
- (d) in which at least one input is fixed and one input is variable.

20. When marginal product of labour is less than average product of labour

- (a) the average product of labour is increasing
- (b) the marginal product of labour is increasing
- (c) total product is falling
- (d) the average product of labour is decreasing

21. Constant returns to scale mean that as all inputs are increased

- (a) total output remains constant
- (b) long-run average costs rise at the same rate as inputs
- (c) long-run average costs remain constant
- (d) none of the above

22. There are diminishing returns to an input when

- a) all inputs are fixed
- b) some inputs are fixed and some are variable
- c) all inputs are variable
- d) only in the long-run

23. Suppose Shauna knows that the average cost of producing 8 sandwiches is €2, while the average cost of producing 9 sandwiches is €2.05. What is the marginal cost of producing the 9<sup>th</sup> sandwich?

- a) €2.45
- b) €2.05
- c) €0.05
- d) €18.45

Cost schedule			
Labor (workers)	Output (units per day)	Total variable cost (euro)	Total cost (euro)
0	0	0	30
1	3	20	50
2	8	40	70
3	12	60	90
4	14	80	110
5	15	100	130

24) In the above table, the total fixed cost is

- a) €0.
- b) €20.
- c) €30.
- d) €50.

25. The U-shape of the long-run average cost curve is due primarily

- a) to technological change
- b) economies and diseconomies of scale
- c) increasing and then diminishing returns
- d) diminishing returns

26. In a perfectly competitive industry each firm's individual demand curve is:

- a) perfectly elastic
- b) perfectly inelastic
- c) downwards sloping

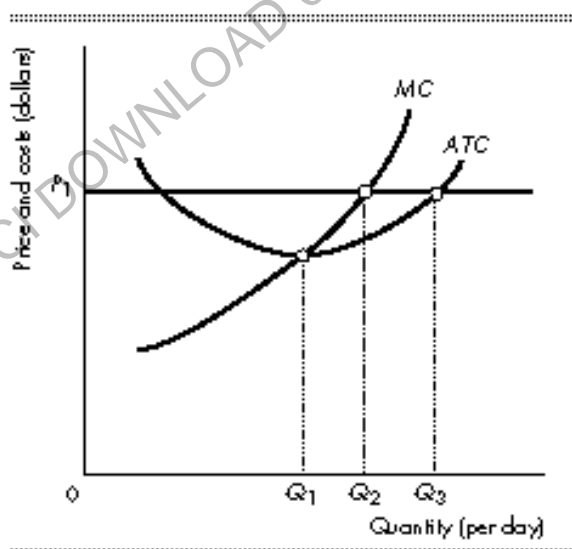
d) relatively elastic

27. In a short run Perfectly Competitive equilibrium if a firm finds itself operating at a price between its Average Total costs and its Average Variable Costs it will

- a) continue to operate even though it is making economic losses
- b) shut down as it is making economic losses
- c) continue to operate as it is making economic profits
- d) shut down as it is only breaking even

28. In a perfectly-competitive long-run equilibrium:

- a) all firms make positive economic profits
- b) all firms produce at the minimum points on their average total cost curves
- c) the industry supply curve is downwards sloping
- d) all firms face the different prices and the value of marginal cost will vary directly with firm size.



29. In the above figure, if the price is  $P_1$ , the firm is

- a) making an economic profit.
- b) incurring an economic loss.
- c) breaking even.
- d) shut down.

30. Which of the following is NOT a characteristic of a perfectly competitive industry?

- (a) a down-wards sloping market demand curve
- (b) perfectly elastic demand for each firm
- (c) each firm produces different goods
- (d) each firm decides the level of output it will produce.

## Section B

Please answer any TWO questions from this section.

**Q1.**

- (a) Define the Law of Demand.

**(5 marks)**

- (b) (i) Briefly explain TWO of the factors that can lead to a SHIFT in a market supply curve.

**(6 marks)**

- (ii) Define the economic term “equilibrium”.

**(9 marks)**

- (c) Use demand and supply analysis to explain the changes that have occurred in the Irish residential property market over the past 18 months. Diagram(s) should be used where appropriate to support your answer.

**(15 marks)**

**(TOTAL: 35 MARKS)**

**Q2.**

- (a) Define the Law of Diminishing Marginal Returns.

**(5 marks)**

- (b) (i) Discuss the factors that determine the typical 'U'-shape of a firm's Long-Run Average Total Cost curve.

**(9 marks)**

- (ii) “A firm's long run average cost curve is essentially a planning curve”.  
Briefly explain what is meant by this statement and use a diagram to support your answer.

**(10 marks)**

- (c) (i) List TWO reasons why a perfectly competitive firm is a price-taker?

**(6 marks)**

- (ii) Construct a diagram illustrating the perfectly competitive firm's long-run equilibrium position.

**(5 marks)**

**(TOTAL: 35 MARKS)**

**Q3.**

- (a)
- (i) Define Opportunity Cost. (3 marks)
  - (ii) Write out a definition the Production Possibilities Frontier (PPF) (3 marks)
  - (iii) List and explain the 4 basic Factors of Production (6 marks)
- (b) Outline and explain the basic economic problem and how it is addressed. (18 marks)
- (c) List the four principles that underpin the economics of individual choice. (5 marks)

**(TOTAL: 35 MARKS)****Q4.**

- (a) Define each of the following.
- Price elasticity of demand
  - Cross-price elasticity of demand
- (10 marks)**
- (b)
- (i) A consumer's income rises from €21,000 to €34,000 per annum and, as a result, their demand for good X from 2 to 6 per annum. Calculate this person's income elasticity of demand for this good.  
Is the good a normal or an inferior good? Is it a luxury good? Explain your answers. (7 marks)
  - (ii) The food industry is sometimes described as "recession-proof". Explain. (5 marks)
  - (iii) A new computer game has a PED of – 1.3. If it wants to increase its total revenue from sales what should it do with its price? Explain. (5 marks)
- (c) Briefly explain TWO factors that affect the elasticity of supply. (8 marks)

**(TOTAL: 35 MARKS)**



## Section A: Answer sheet

Student Name: \_\_\_\_\_

Course Title: \_\_\_\_\_

Student Number: \_\_\_\_\_

Q1. (a) (b) (c) (d)

Q2. (a) (b) (c) (d)

Q3. (a) (b) (c) (d)

Q4. (a) (b) (c) (d)

Q5. (a) (b) (c) (d)

Q6. (a) (b) (c) (d)

Q7. (a) (b) (c) (d)

Q8. (a) (b) (c) (d)

Q9. (a) (b) (c) (d)

Q10. (a) (b) (c) (d)

Q11. (a) (b) (c) (d)

Q12. (a) (b) (c) (d)

Q13. (a) (b) (c) (d)

Q14. (a) (b) (c) (d)

Q15. (a) (b) (c) (d)

Q16. (a) (b) (c) (d)

Q17. (a) (b) (c) (d)

Q18. (a) (b) (c) (d)

Q19. (a) (b) (c) (d)

Q20. (a) (b) (c) (d)

Q21. (a) (b) (c) (d)

Q22. (a) (b) (c) (d)

Q23. (a) (b) (c) (d)

Q24. (a) (b) (c) (d)

Q25. (a) (b) (c) (d)

Q26. (a) (b) (c) (d)

Q27. (a) (b) (c) (d)

Q28. (a) (b) (c) (d)

Q29. (a) (b) (c) (d)

Q30. (a) (b) (c) (d)

NCI DOWNLOAD 06.12.17 12:48:00