National College of Ireland

BA (H) in Accounting, BAHACC1,
BA (H) in Financial Services, BAHFINS1,
BA (H) in Human Resource Management, BAHHRD1

Semester Two Examinations – 2008/9

29th April 2009
10.00am -12.00am

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## ECONOMICS 1

Mr 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 must 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:** "[Click here and enter any attachments required e.g. graph paper, formula sheets etc]"

You should answer **only the required numbe**r 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. Use the attached answer sheet for this section.

1. The fact that human wants cannot be fully satisfied with available resources is called the problem of
a) opportunity cost
b) scarcity
c) positive economics
d) none of the above

2. The latin term 'ceteris parabis' means
a) 'false until proven true'
b) 'other things remaining the same'
c) after this, then because of this'
d) 'incorrect, even though it is logical'

3. Sean has the chance to attend an economics lecture or to play football. If he chooses to attend the lecture, the value of playing football is
a) greater than the value of the lecture
b) zero
c) equal to the value of the lecture
d) the opportunity cost of attending the lecture

4. A normative statement is a statement regarding
a) what is usually the case
b) what ought to be
c) what is
d) the predictions of an economic model

5. An market is in equilibrium when
a) no individual can make himself better off by changing his behaviour, given the behaviour of others
b) no individual can make himself better off by changing his behaviour, regardless of the behaviour of others
c) at least one individual can make himself better off by changing his behaviour, given the behaviour of others
d) none of the above

Suppose a country produces only two goods- food and clothes. Three alternative combinations on its Production Possibilities Frontier are given in the table below.  Use the table to answer questions 6 and 7.

### Production Possibilities

| Possibility | Units of food | Units of Clothes |
|---|---|---|
| A | 8 | 0 |
| B | 6 | 1 |
| C | 0 | 3 |

6. In moving from combination B to combination C the opportunity cost of producing one additional unit of clothes is
a) 2 units of food
b) ½ a unit of food
c) 6 units of food
d) 3 units of food

7. According to the |Production Possibilities Frontier
a) a combination of 6 units of food and 1 unit of clothes would employ all resources
b) a combination of 0 units of food and 4 units of clothes is not attainable
c) a combination of 6 units of food and 0 units of clothes is attainable
d) all of the above.

8. If goods A and B are substitutes in demand, a decrease in the price of good B will:
a) increase demand for good A
b) increase demand for good B
c) decrease demand for good A
d) increase demand for good B and decrease demand for good A

9. A good is inferior if:
a) when income increases demand remains unchanged
b) when income increases demand decreases
c) when income increases demand increases
d) none of the answer choices can happen

10 Which of the following might shift the demand curve for butter to the right:
a) An increase in income
b) A decrease in the price of Flora, a substitute for butter
c) a decrease in the price of butter
d) an increase in the price of bread, a complement to butter

11. Which of the following will cause the supply curve for oranges to shift
a) disastrous weather that destroys over half of the crop
b) a newly discovered health benefit associated with the consumption of oranges.
c) a decrease in the price of a complement to oranges
d) an increase in the price of oranges

12. Excess supply occurs when
a) the price is above the equilibrium price
b) the quantity demanded exceeds the quantity supplied
c) the price is below the equilibrium price
d) both the quantity demanded exceeds the quantity supplied and the price is below the equilibrium price

13. Which of the following will definitely cause an increase in the equilibrium price
a) an increase in both demand and supply
b) a decrease in both demand and supply
c) an increase in demand and a decrease in supply
d) a decrease in demand and an increase in supply

14. The price of a good will tend to fall if
a) there is a surplus at the current price
b) the current price is below the equilibrium price
c) there is a shortage at the current price
d) none of the above

15. A perfectly price-inelastic demand curve is:
a) Horizontal
b) Downwards sloping
c) Upwards sloping
d) Vertical

16. If the price elasticity of demand is between 0 and -1 then the good in question is said to be
a) perfectly inelastic
b) inelastic
c) unit elastic
d) elastic

17. If the demand for farmer John's maple syrup is inelastic, then when farmer John raises the price of maple syrup his total revenue will
a) increase
b) decrease,
c) remain unchanged
d) probably change, but more information is needed to determine if total revenue increases, decreases, or stays the same.

18. Inferior goods are goods
a) that are inferior in quality
b) that are consumed only by those with inferior taste
c) that have a negative income elasticity of demand
d) for which demand increases when income increases

19: 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

20. The cross-price elasticity of ice-cream with respect to the price of candy-floss has been estimated to be equal to 0.4. This implies that:
a) ice-cream and candy-floss are both normal goods
b) ice-cream and candy-floss are complements
c) ice-cream and candy-floss are substitutes
d) one of the two goods is inferior while the other is normal, but we need additional information to determine which one of them is inferior.

21. 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.

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. Marginal cost is the amount by which
a) total cost increases when one more worker is hired
b) fixed cost increases when one more worker is hired
c) total cost increases when one more unit of output is produced
d) fixed cost increases when one more unit of output is produced.

24. Suppose Cynthia knows that the average cost of producing 9 scones is €5, while the average cost of producing 10 scones is €5.20. What is the marginal cost of producing the 10th scone?
a) €7
b) €5.20
c) €0.20
d) none of the above

25. The short-run average total cost curve slopes upwards due to
a) economies of scale
b) diseconomies of scale
c) increasing returns
d) diminishing returns

26. Mary's bakery determines that P<AVC. Mary should:
a) continue to operate even though she is enduring an economic loss
b) continue to operate as she is making an economic profit
c) shut down immediately as she is enduring an economic loss
d) raise the price until she maximises her profits.

27. 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

28. Which of the following is a characteristic of a monopoly industry.
a) there are barriers to entry
b) profits are zero in the long-run
c) there are many identical firms in the industry
d) there are differentiated products.

29. The demand curve faced by a monopoly firm is
a) perfectly inelastic
b) perfectly elastic
c) downwards sloping
d) upwards sloping

30. For a perfectly competitive firm, marginal revenue:
a) is less than price
b) is greater than price
c) decreases as the firm increases output
d) is equal to price

## Section B

Please answer TWO questions ONLY from this section.

**Question 1**

(a)     Explain, using a diagram, the Law of Demand.

(8 marks)

(b)     List and explain THREE factors that affect the supply of a typical good or service. In your answer distinguish between a movement along and a shift in a supply curve.  Use diagram(s) to illustrate your answer.

(15 marks)

(c)     Explain, using diagrams, why excess demand (a shortage) will not last in the long run in a free market.

(12 marks)

**(Total: 35 marks)**

**Question 2**

(a)  List and explain two factors that determine the Price Elasticity of Supply.

(8 marks)

(b) The table below represents price and demand information for a firm selling a brand of cars

| Price | Quantity Demanded |
|---|---|
| €21,100 | 100,000 |
| €19,000 | 210,000 |

(i)     Calculate the price elasticity of demand when the price falls from €21,100 to €19,000.

(8 marks)

(ii)     Interpret the answer that you have calculated in (i) above.

(6 marks)

(iii)     If the car manufacturer wishes to increase total revenue would you advise them to increase or lower price?  Explain your answer.

(6 marks)

(c) Define the Cross-Price Elasticity of Demand.

(7 marks)

**(Total: 35 marks)**

**Question 3**

(a) List and explain the characteristics (or assumptions) that economists make about perfectly competitive markets.

(15 marks)

(b) Show and explain the long run equilibrium for a perfectly competitive firm. Will a perfectly competitive firm earn supernormal profits in the long run?

(20 marks)

**(Total: 35 marks)**

**Question 4**

(a) Briefly describe any THREE of the following economic concepts and graphically illustrate each of them on a Production Possibilities Frontier (PPF).

- Opportunity cost and increasing opportunity cost

- Productive efficiency/inefficiency

- Allocative efficiency

- Economic growth

(15 marks)

(b) What is the Optimal Output Rule? Why is profit maximised at this level of output?

(10 marks)

(c) Briefly describe the circumstances under which a perfectly competitive firm should continue to produce even though they are incurring losses?

(10 marks)

**(Total: 35 marks)**

## END OF PAPER

## Section A:   Answer sheet

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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)

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**MARKS =**

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