

National College of Ireland

BA (Honours) in Accounting, Human Resource Management and Financial Services

Semester Two Examinations – 2007/8

2nd May 2008
2.00pm – 4.00pm

Economics 1

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Candidates must answer **THREE** questions in total. **ALL CANDIDATES MUST ATTEMPT QUESTION 1 AND TWO OF THE REMAINING FOUR QUESTIONS.**

DO NOT WRITE ANY ANSWERS ON THE EXAM PAPER. USE THE ACCOMPANYING ANSWER SHEET.

Duration of exam: Two hours

Attachments: Answer Sheet for Multiple Choice Questions

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

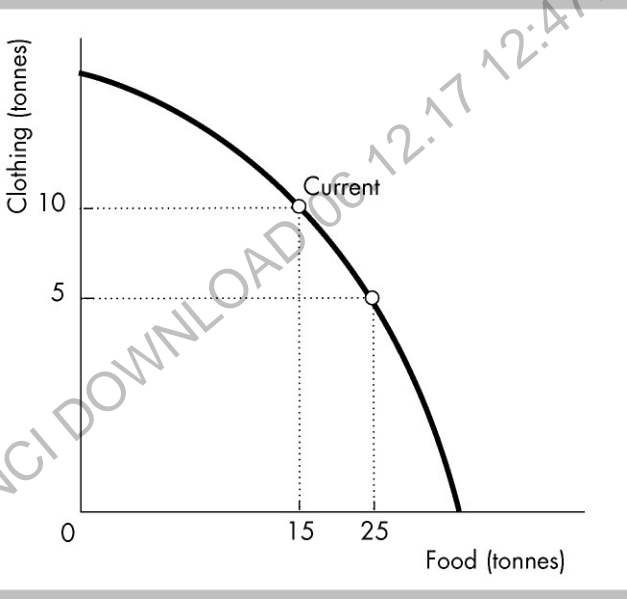
If you answer **more** than the required number of questions you should **cancel** (put a line through) the question(s) you do not want marked.

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.

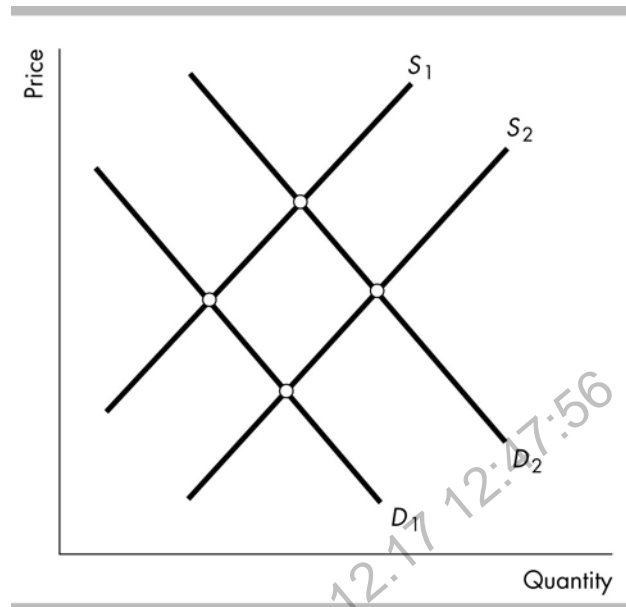
Candidates Must Attempt Every Multiple Choice Question

All Questions Carry Equal Marks

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.



- 1) The above figure illustrates that if this country wishes to move from its current production point (labelled "Current") and have 10 more tonnes of food, it can do this by producing 1) _____
- A) 10 fewer tonnes of clothing.
 - B) 10 more tonnes of clothing.
 - C) 5 fewer tonnes of clothing.
 - D) 5 more tonnes of clothing.



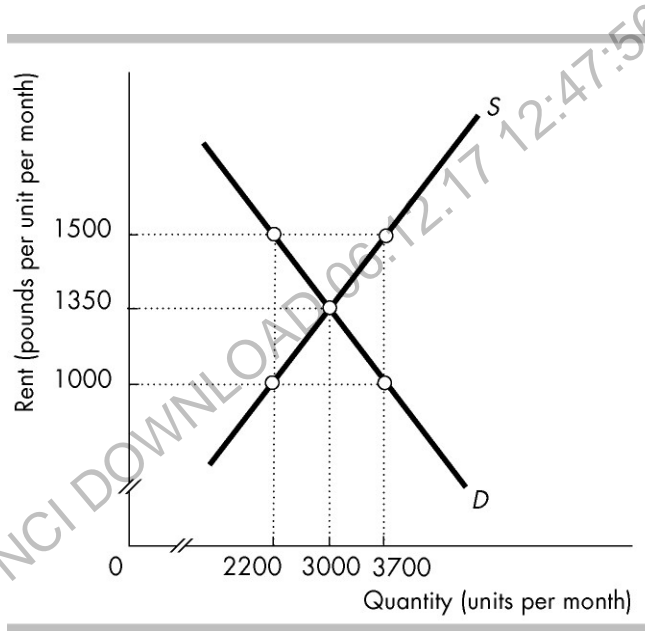
- 2) The above figure represents the market for oil. Because of the development of a new deep sea drilling technology the _____
- demand curve shifts from D_1 to D_2 and the supply curve shifts from S_1 to S_2 .
 - demand curve will not shift, and the supply curve shifts from S_2 to S_1 .
 - demand curve will not shift, and the supply curve shifts from S_1 to S_2 .
 - demand curve shifts from D_1 to D_2 and the supply curve will not shift.
- 3) Of the following, demand is likely to be the least elastic for _____
- MP3 players.
 - toothpicks.
 - vacations in France.
 - Ford automobiles.
- 4) If goods are complements, definitely their _____
- income elasticities are negative.
 - cross elasticities are negative.
 - income elasticities are positive.
 - cross elasticities are positive.
- 5) The income elasticity of demand is the percentage change in _____ divided by the percentage change in _____. 5) _____
- income; the price
 - income; the quantity demanded
 - the quantity demanded; income
 - the price; income
- 6) Supply is elastic if _____
- a 1 per cent change in price leads to a smaller percentage change in quantity supplied.
 - the good in question is a normal good.
 - the slope of the supply curve is positive.
 - a 1 per cent change in price leads to a larger percentage change in quantity supplied.

- 7) If a 1 per cent decrease in the price of a bushel of oranges results in a smaller percentage decrease in the quantity supplied,
- A) demand is inelastic.
 - B) demand is elastic.
 - C) supply is inelastic.
 - D) supply is elastic.

7) _____

- 8) A vertical supply curve indicates an elasticity of supply that equals
- A) 1.
 - B) infinity.
 - C) -1.
 - D) 0.

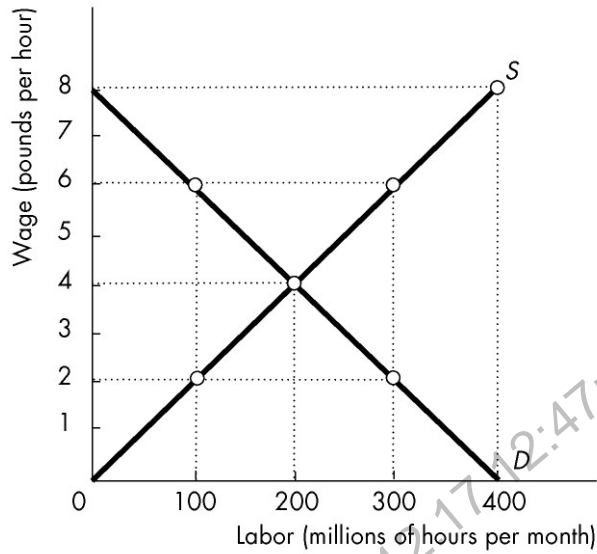
8) _____



- 9) The above figure shows the housing market in Big City. What is the equilibrium rent in Big City?
- A) £1350.
 - B) £1500.
 - C) £1125.
 - D) £1250.
- 10) The above figure shows the housing market in Big City. What could the Big City Housing Authority do if it wants to reduce the rents paid by its citizens?
- A) Impose a rent floor above £1350.
 - B) Impose a rent floor below £1350.
 - C) Impose a rent ceiling below £1350.
 - D) Impose a rent ceiling above £1350.

9) _____

10) _____



11) In the above figure, if the minimum wage is set at £6 per hour, what quantity of labour is employed?

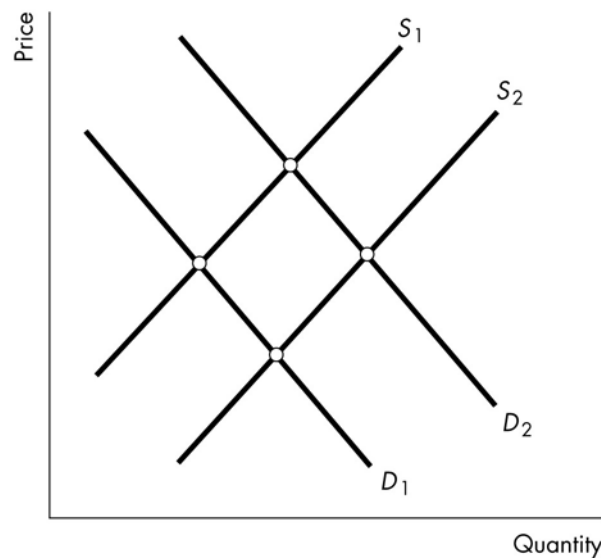
- A) 400 million hours.
- B) 100 million hours.
- C) 200 million hours.
- D) 300 million hours.

11) _____

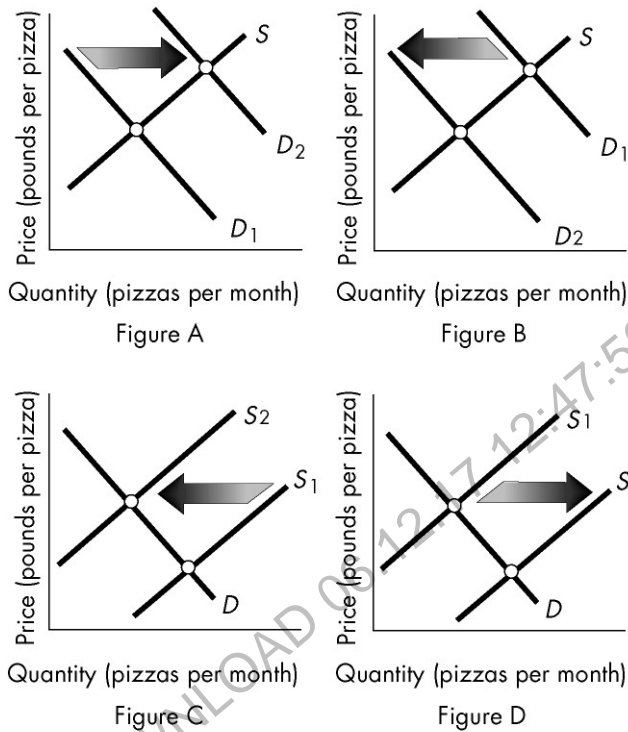
12) A price below the equilibrium price results in

- A) excess supply.
- B) a surplus.
- C) a further price fall.
- D) a shortage.

12) _____



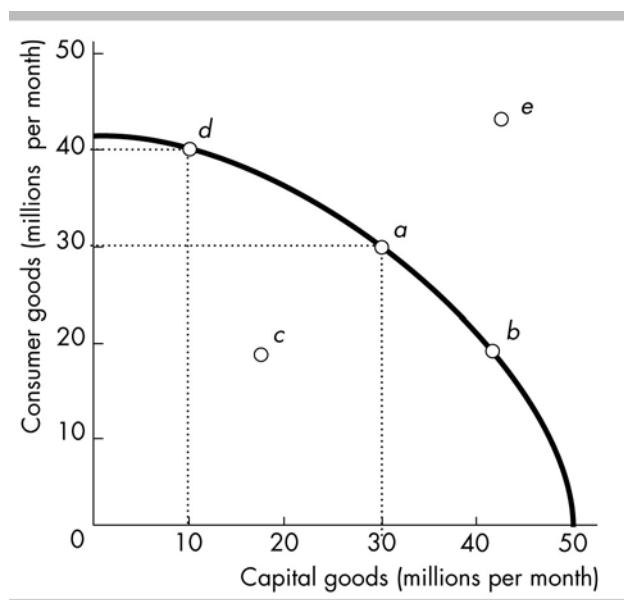
- 13) The above figure represents the market for french fries at fast food joints. If the price of potatoes rises and simultaneously people become concerned that french fries can cause heart attacks 13) _____
- A) the demand curve for french fries will shift from D_2 to D_1 and the supply curve of french fries will shift from S_1 to S_2 .
 - B) the demand curve for french fries will shift from D_2 to D_1 and the supply curve of french fries will shift from S_2 to S_1 .
 - C) the demand curve for french fries will shift from D_2 to D_1 and the supply curve of french fries will not shift.
 - D) the demand curve for french fries will not shift, and the supply curve of french fries will shift from S_1 to S_2 .
- 14) The price of a good will fall if 14) _____
- A) the price of a complement falls.
 - B) the quantity demanded exceeds the quantity supplied.
 - C) the current price is less than the equilibrium price.
 - D) there is a surplus at the current price.
- 15) If good A is a normal good and income increases, the equilibrium price of A 15) _____
- A) and the equilibrium quantity will decrease.
 - B) and the equilibrium quantity will increase.
 - C) will rise and the equilibrium quantity will decrease.
 - D) will fall and the equilibrium quantity will increase.
- 16) The price will rise and the equilibrium quantity might increase, decrease, or stay the same when the 16) _____
- A) demand and the supply of a good both decrease.
 - B) demand for a good decreases and the supply of it increases.
 - C) demand for a good increases and the supply of it decreases.
 - D) demand and the supply of a good both increase.



- 17) The above figure shows the market for pizza. Which figure shows the effect of a decrease in the price of a hamburger, which for consumers is a substitute for pizza? 17) _____
- A) Figure A. B) Figure B.
C) Figures B and C. D) Figure D.
- 18) The above figure shows the market for pizza. Which figure shows the effect of an increase in the price of the tomato sauce used to produce pizza? 18) _____
- A) Figure A. B) Figure B. C) Figure C. D) Figure D.
- 19) The price elasticity of demand equals the 19) _____
- A) percentage change in the price divided by the percentage change in the quantity demanded.
B) percentage change in the quantity demanded divided by the percentage change in the price.
C) change in the quantity demanded divided by the change in price.
D) change in the price divided by the change in quantity demanded.
- 20) If demand is price elastic, 20) _____
- A) a 1 per cent increase in the price leads to an increase in the quantity demanded that exceeds 1 per cent.
B) a 1 per cent decrease in the price leads to a decrease in the quantity demanded that is less than 1 per cent.
C) a 1 per cent decrease in the price leads to an increase in the quantity demanded that exceeds 1 per cent.
D) the price is very sensitive to any shift of the supply curve.

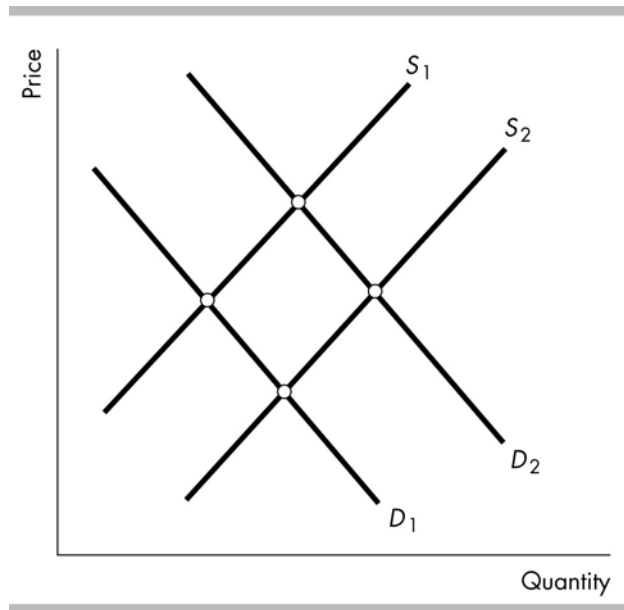
Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

- 21) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a production point that is inefficient? 21) _____
- A) 3 units of good X and 35 units of good Y. B) 10 units of good X and 16 units of good Y.
C) 0 units of good X and 40 units of good Y. D) 6 units of good X and 28 units of good Y.
- 22) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of Y from 16 to 28 units? 22) _____
- A) 6 units of good X.
B) 3 units of good X.
C) 12 units of good X.
D) There is no opportunity cost when moving from one point to another along a production possibilities frontier.



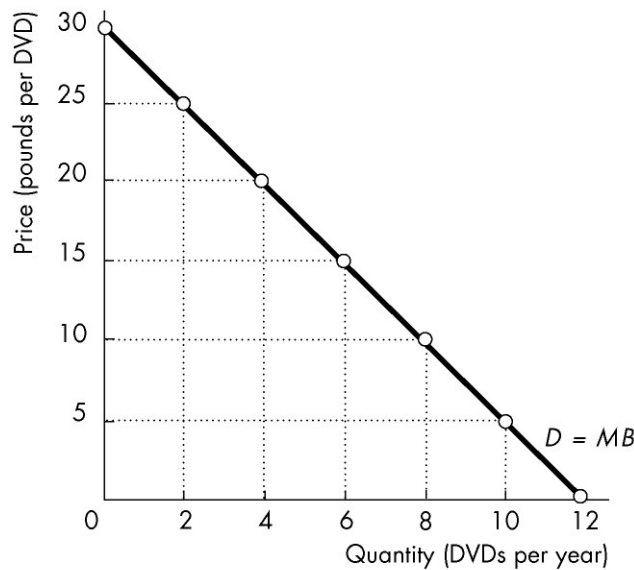
- 23) In the figure above, moving from point *d* to point *a* requires 23) _____
- A) a decrease in unemployment.
B) technological change.
C) both capital accumulation and a decrease in unemployment.
D) decreasing the output of consumer goods in order to boost the output of capital goods.

- 24) A substitute is a good _____
- A) that is not used in place of another good. B) that can be used in place of another good.
- C) of lower quality than another good. D) of higher quality than another good.
- 25) A complement is a good _____
- A) of higher quality than another good. B) of lower quality than another good.
- C) used in conjunction with another good. D) used instead of another good.
- 26) If income increases or the price of a complement falls, the _____
- A) supply curve of a normal good shifts rightward.
- B) demand curve for a normal good shifts rightward.
- C) supply curve of a normal good shifts leftward.
- D) demand curve for a normal good shifts leftward.
- 27) A supply curve shows the relation between the quantity of a good supplied and _____
- A) the price of the good. Usually a supply curve has positive slope.
- B) income. Usually a supply curve has positive slope.
- C) income. Usually a supply curve has negative slope.
- D) the price of the good. Usually a supply curve has negative slope.



- 28) The above figure represents the market for oil. When a hurricane destroys a major refinery the _____
- A) demand curve for oil will not shift, and the supply curve for oil shifts from S_2 to S_1 .
- B) demand curve for oil will not shift, and the supply curve for oil shifts from S_1 to S_2 .
- C) demand curve for oil shifts from D_1 to D_2 and the supply curve for oil shifts from S_2 to S_1 .
- D) demand curve for oil shifts from D_1 to D_2 and the supply curve for oil will not shift.

- 29) In general, how a sales tax is divided between buyers and sellers is determined by 29) _____
- A) the elasticities of supply and demand. B) the revenue needs of government.
C) who the law says must pay the tax. D) the government's choice of whom to tax.
- 30) Neither the demand and the supply for a good are perfectly elastic nor perfectly inelastic. If a sales tax on sellers of the good is imposed, the tax is paid by 30) _____
- A) both buyers and sellers. B) neither buyers nor sellers.
C) only buyers. D) only sellers.
- 31) If demand is very inelastic, a sales tax imposed on sellers will cause the price plus the tax paid by buyers of the good to 31) _____
- A) rise by more than the amount of the tax. B) rise by almost the amount of the tax.
C) fall by almost the amount of the tax. D) fall by more than the amount of the tax.
- 32) A good has a downward-sloping demand curve and a perfectly elastic supply. Imposing a sales tax of £1 per unit on the sellers of the good 32) _____
- A) does not change the price paid by demanders.
B) raises the price paid by demanders by less than £1.00.
C) raises the price paid by demanders by £1.00.
D) raises the price paid by demanders by more than £1.00.



- 33) The figure above shows Clara's demand for DVDs. The market price for a DVD is £15. Which statement is true? 33) _____
- A) When Clara buys 6 DVDs, she receives a total of £30 of consumer surplus.
B) When Clara buys 6 DVDs, she receives a total of £15 of consumer surplus.
C) When Clara buys 6 DVDs, she receives £15 of consumer surplus on her 6th DVD.
D) When Clara buys 6 DVDs, she receives a total of £45 of consumer surplus.

- 39) A person who has an absolute advantage in the production of all goods will 39) _____
- A) not be able to gain from specialization and exchange.
 - B) have a production possibilities frontier with a constant slope.
 - C) also have a comparative advantage in the production of all goods.
 - D) have a comparative advantage only in the production of some goods but not for others.
- 40) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 40) _____
units of X or 4 units of Y in an hour. There can be gains from exchange
- A) if Agnes specializes in the production of Y and Brenda in X.
 - B) only if Agnes becomes faster at producing X.
 - C) only if Brenda becomes faster at producing X or Y.
 - D) if Agnes specializes in the production of X and Brenda in Y.

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Q2

- a) With the aid of a diagram(s), explain why many economists consider cigarettes an efficient good to tax. Is the tax equitable?

(50 Marks)

- b) Explain how the size of the deadweight loss caused by the imposition of a tax varies with the size of the tax. In your answer refer to the "Laffer Curve".

(50 Marks)

Q3

- a) What conditions must a market satisfy for it to be considered perfectly competitive?

(30 Marks)

- b) With the aid of a diagram(s), explain how firms in a perfectly competitive market adjust towards their long run equilibrium price and quantity. Explain why many economists consider the outcome in a perfectly competitive market to be efficient.

(70 Marks)

Q4

- a) What is meant by the terms consumer and producer surplus?

(30 Marks)

- b) Why do many economists argue that market outcomes are efficient?

(40 Marks)

- c) Are market outcomes always efficient? Explain your answer.

(30 Marks)

Q5

- a) With the aid of a diagram(s), explain how a monopoly chooses its price and quantity supplied. Explain why many economists consider the outcome in a monopolistic market to be inefficient?

(70 Marks)

- b) Discuss some of the ways that governments can deal with the issue of monopolies.

(30 Marks)