

ECONOMICS

DECEMBER 2024

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Answer THREE questions. All questions carry equal marks. Duration: 3 hours.

Question 1

- (a) Explain why public sector policymakers need to take account of issues of efficiency, effectiveness and economy when making decisions related to the provision of public services. **(50 marks)**
- (b) Are there challenges in measuring 'value for money' in the public sector that do not occur in the private sector? Outline these challenges and discuss how they can be addressed. **(50 marks)**

(Total: 100 marks)

Question 2

- (a) The government levies a tax on a good. Show, using a diagram, the revenue the tax raises for the government and the excess burden of the tax. **(30 marks)**
- (b) Using the criteria of a good taxation system, explain the advantages and disadvantages of applying a tax on the value of agricultural land. **(40 Marks)**
- (c) Assess how a new city tourism tax (€3/night) would meet the benefit principle. Do you believe the new tax would create significant excess burden? Give reasons for your answer. **(30 marks)**

(Total: 100 marks)

Question 3

- (a) Describe the ways in which a public good differs from a private good **(20 marks)**.
- (b) Explain, using appropriate diagrams, the optimal provision of a public good. **(40 marks)**
- (c) Why, from an economic perspective, is the Dublin Port Tunnel free for trucks but not for cars? Explain your answer. **(30 marks)**
- (d) Explain the difference between the marginal cost of consumption and the marginal cost of production and why this difference is important with regard to public goods. **(10 marks)**

(Total: 100 marks)

Question 4

- (a) “When transactions costs are zero, the assignment of liability for externalities is irrelevant for efficiency but not for distributional reasons.” Explain this statement. **(20 marks)**
- (b) Explain the concept of the “reciprocal nature of externalities”. **(30 marks)**
- (c) Using Coase’s work, briefly explain why the smoking ban is an effective policy. **(30 marks)**
- (d) Briefly explain how ‘behavioural’ economics differs from ‘standard’ economics **(20 marks)**

(Total: 100 marks)

Question 5

- (a) Explain the different pricing rationales that can be used in the regulation of a natural monopoly. **(40 marks)**
- (b) Explain the economic rationale for regulating a sector of your choice. **(40 marks)**
- (c) Describe the attributes of an effective interest group. Use examples in your answer. **(20 marks)**

(Total: 100 marks)

Question 6

- (a) Cost Benefit Analysis has been described as “providing a systematic set of procedures by which a government can assess whether to undertake a project or programme and which one to undertake” Briefly explain the steps involved in conducting a cost-benefit analysis. **(50 marks)**
- (b) Using an example of a Cost Benefit Analysis that you are familiar with, discuss how the social costs and benefits of the project were identified and valued. **(50 marks)**

(Total: 100 marks)

Question 7

- (a) Outline the two main sources of funding from the capital markets and comment on the attributes of each. Why is it that $K_e > K_i$ (Cost of Equity is always greater than the Cost of Debt)? **(25 marks)**
- (b) Explain the shortcomings of the Dividend Valuation Model in determining the cost of equity K_e . **(25 marks)**
- (c) What is the Weighted Average Cost of Capital (WACC) and what are its uses? **(25 marks)**
- (d) Explain your understanding of the Capital Structure Debate. **(25 marks)**

Total (100 marks)

Question 8

- (a) Explain why the Capital Asset Pricing Model (CAPM) is considered superior to the Dividend Valuation Model in determining the cost of equity K_e ? **(25 marks)**
- (b) Why might a luxury goods company have a β factor of 1.2 whereas a food company might have a β factor of 0.6? **(25 marks)**
- (c) What is the role of government in the capital markets? **(25 marks)**
- (d) Outline who are the other (non-government) participants in the capital markets and the roles they play? **(25 marks)**

(Total: 100 marks)