



Fundamentals of Economics

01 June 2016

Examination Paper

Section A	Answer ALL questions from this section.
Section B	Answer any TWO (2) questions from this section. Clearly cross out surplus answers. Failure to do this will result in only the first TWO (2) answers being marked.

Time: 2.5 hours

The maximum mark for this paper is 100.

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

Section A
Answer ALL questions from this section

Marks

Question 1

- a) Explain what is meant by the real money supply. 2
- b) i) If nominal wages and prices only adjust slowly what will happen if there is a one off increase in nominal money supply in the short term? 3
- ii) Explain what will consequently happen in the longer term. 5

Total 10 Marks

Question 2

- a) Draw the equilibrium position of a *perfectly competitive industry* and *the firm* in the short run. 6
- b) Identify the *price maker* and *price taker* in this situation. 2
- c) Explain what types of profit are available in the short run and long run in this perfectly competitive industry. 2

Total 10 Marks

Question 3

- a) Explain what index numbers represent. Use an example to illustrate your point. 2
- b) Explain what is meant by the *retail price index* and state what it can measure. 3
- c) Compare and contrast *nominal* and *real* values. 4
- d) Describe how composite index numbers are produced 1

Total 10 Marks

Question 4

- a) In an open economy with international trade and government intervention, identify the different components of *aggregate demand* in that economy. **5**
- b) Explain what is meant by *Gross National Product (GNP)*. **2**
- c) Identify three ways in which *national income accounting* might not generate an accurate estimate of national income. **3**

Total 10 Marks**Question 5**

- a) Explain where macroeconomic equilibrium output occurs. **2**
- i) Explain the consequence if desired spending exceeds output. **2**
- ii) Explain what is likely to occur if desired spending is less than output. **2**
- b) Outline what is meant by the term the multiplier in national income accounting. **2**
- i) Explain how the multiplier works in practice. **2**

Total 10 Marks

Section B
Answer any TWO (2) questions from this section

Marks

Question 6

- | | | |
|----|--|-----------|
| a) | Outline FIVE (5) factors affecting the demand for a product. | 5 |
| b) | For a <i>normal good</i> explain what happens to demand when the price of this good falls, and identify any assumptions you are making. Draw a diagram of a demand curve to illustrate this. | 7 |
| c) | Explain the difference between a movement along the demand curve and a shift of the demand curve. Use diagrams and examples to illustrate your answer. | 13 |

Total 25 Marks

Question 7

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|------|---|-----------|
| a) | Industries are divided into categories according to the degree of competition that exists between the firms within the industry. | |
| i) | Outline FIVE (5) alternative market structures along this spectrum of competition. | 10 |
| ii) | Identify THREE (3) ways of distinguishing between these market structures. | 3 |
| iii) | Explain what is meant by the term <i>natural monopoly</i> , why this can be desirable and provide an example of a natural monopoly. | 6 |
| b) | Distinguish between the terms monopoly and monopoly power. | 6 |

Total 25 Marks

Question 8

- a)** Explain the following THREE (3) macroeconomic terms:
- i) Output **2**
 - ii) Growth **2**
 - iii) Recession **2**
- b)** Explain the following THREE (3) macroeconomic terms:
- i) Exchange rate of a currency **2**
 - ii) Balance of payments **2**
 - iii) Real GDP per capita **2**
- c)** In a three sector closed economy, identify the THREE (3) agents involved and their role within this circular flow. **10**
- d)** In a three sector open economy highlight THREE (3) withdrawals from this circular flow. **3**

Total 25 Marks**Question 9**

- a)** Distinguish between the sole trader, partnership and limited company as legal forms of organising a business. **10**
- b)** In terms of an individual firm, distinguish between the two types of accounts that firms report. **4**
- c)** Using the concept of unpaid bills, distinguish between revenue and cash flow in the income statement and the problem this can create for the firm. **6**
- d)** Explain separately the concepts of depreciation and inventories and their accounting treatment. **5**

Total 25 Marks

	Marks
Question 10	
a) Explain why banks don't need to keep all of their deposits as sight deposits.	6
b) Identify TWO (2) factors that influence the <i>money multiplier</i> .	4
c) Describe the THREE (3) items that bank profits depend upon.	3
d) Explain FOUR (4) methods by which central banks can influence the money supply.	8
e) Explain how there is interaction between the money market and the goods market.	4

Total 25 Marks

End of paper