Summer Examinations 2015

ECN100615N

Module Title: The Economic Environment
Level: Four
Time Allowed: Two Hours

Instructions to students:

- Enter your student number not your name on all answer books.
- **Section A** - Answer all questions. Questions are worth 3 marks each.
- **Section B** - Answer one question. Questions are worth 35 marks each.
- **Section C** - Answer one question. Questions are worth 35 marks each.
- As a guide, allow one hour for Section A, 30 minutes for Section B, and 30 minutes for Section C.
- Only work recorded in the answer books will be assessed.

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Section A

Answer all questions

Questions are worth 3 marks each.

1. If the demand for a product falls as people’s income rises, the good is said to be:
   a. an inferior good.
   b. a complementary good.
   c. a substitute good.
   d. a normal good.

2. Relative to a competitively organised industry, a monopoly:
   a. produces more output, charges higher prices and earns economic profits.
   b. produces less output, charges higher prices and earns economic profits.
   c. produces less output, charges lower prices and earns only normal profits.
   d. produces less output, charges lower prices and earns economic profits.

3. A firm will maximise its profits if it produces and sells the level of output where:
   a. marginal cost equals marginal revenue.
   b. marginal revenue equals average cost.
   c. average revenue equals total cost.
   d. average revenue equals average cost.

4. In which of the following market structures that you would expect firms to be price takers?
   a. Monopoly.
   b. Perfect competition.
   c. Monopolistic competition.
   d. Oligopoly.

5. Which one of the following is not a characteristic of oligopoly?
   a. There are just a few firms that dominate the industry.
   b. There are no barriers to the entry of new firms into the industry.
   c. The firms face downward sloping demand curves.
   d. Oligopolists tend to take into account the actions and reactions of other firms.
6. Which of the following fiscal policy measures would cause a contraction in the level of economic activity?

a. A cut in direct taxation.
b. A rise in personal allowances.
c. A rise in government expenditure.
d. A move from a budget deficit to a budget surplus.

7. Government policies that focus on increasing production rather than stimulating aggregate demand are known as:

a. monetary policies.
b. income policies.
c. fiscal policies.
d. supply-side policies.

8. Assume that there is a free-floating exchange rate. Which of the following would cause the exchange rate to depreciate?

a. UK interest rates fall relative to those abroad.
b. The UK experiences a lower rate of inflation than other countries (assuming no change in interest rates).
c. Speculators believe that the rate of exchange will rise.
d. Imports decrease.

9. If the quantity of money demanded exceeds the quantity of money supplied, then the interest rate will:

a. Change in an uncertain direction.
b. Remain constant.
c. Fall.
d. Rise.

10. In the short run, an increase in the government’s budget deficit is most likely to reduce:

a. imports.
b. unemployment.
c. interest rates.
d. inflation.

End of Section A
Section B follows overleaf
Section B

Answer one question

Questions are worth 35 marks each

11. Explain three of the arguments that are made to justify trade barriers such as quotas and tariffs.

12. How would a rise in the rate of interest set by the Bank of England affect the UK economy? In your opinion is a rise desirable in the current circumstances?

13. Discuss the advantages and disadvantages to a less-developed country of having a large multinational companies (MNC) sector.

End of Section B
Section C follows overleaf
Section C

Answer **one** question

Questions are worth **35 marks** each

14. Explain what might have caused the rise in housing prices in the UK in recent years, applying relevant theories and drawing diagrams to support your argument.

15. Draw a demand and supply curve for a good of your choosing. Explain how an increase in household income would affect the equilibrium price and quantity.

16. Explain the key building blocks of economic growth, referring to experiences of some of the fast growing economies over the last few decades.

End of Section C
End of Paper