ST MARY’S UNIVERSITY

TWICKENHAM, LONDON

BA/BA (ITT)/BSc Degree Examination students registered for Level **Five**

Title: **Business Economics**

Code: **MGT5022**

Semester: **One**

Date: **7th January, 2020**

Time:**1:30 pm – 3:30 pm**

TIME ALLOWED: **TWO** HOURS

Section A - Please answer **ALL** questions (30 marks).

Section B - Please answer **TWO** questions (70 marks).

**Write your regnum in the space below:**

**Regnum:…………………………………………**

**Section A (30 marks)**

There are 20 multiple-choice questions in Section A. Please circle on this exam paper only ONE of the options as the answer to each question.

1. Microeconomics best describes the study of the:

a) The level of unemployment in the economy

b) The growth rate of GDP

c) The behaviour of individual economic agents such as consumers

d) The policies of the Treasury to manage fiscal policy

1. “*The government should increase spending”.* This statement is an example of:

a) A normative statement

b) An economic fact

c) An economic principle

d) A positive statement

1. Opportunity cost might best be defined as:

a) The market price that must be paid in order to obtain an extra unit of a good or service

b) The amount of a good or service that one has to forego in order to get an additional unit of another good or service

c) The cost in pounds of producing one more unit of a good or service

d) The extra cost incurred by a producer for producing one more unit of a good or service.

1. With a given supply curve, an inward shift in demand causes:

a) An overall decrease in price and an increase in equilibrium quantity.

b) An overall decrease in price and a decrease in equilibrium quantity.

c) An overall increase in price and an increase in equilibrium quantity.

d) An overall increase in price and a decrease in equilibrium quantity.

1. If butter and margarine are substitute goods, then a decrease in the price of butter, other things being constant, causes:
2. Margarine to become relatively less expensive than butter.
3. The quantity demanded of margarine to fall.
4. Butter to become relatively more expensive than margarine.
5. None of the above.
6. When a market is in equilibrium,

a) There is a shortage.

b) There is a surplus.

c) Marginal revenue and marginal profit are equal.

d) None of the above.

1. The price elasticity of demand is defined as:

a) The percentage change in price due to a 1% change in quantity demanded

b) The percentage change in quantity demanded due a 1% change in price

c) The percentage change in price due to a 1% change in elasticity

d) The percentage change in elasticity due to a 1% change in price

1. If a firm wants to increase its revenues and demand is inelastic,

a) It should raise the price

b) It should lower the price

c) It should keep its price constant

d) None of the above

1. A firm lowers its price from £2 to £1 and so is able to raise its sold output from 100 units to 150 units. The arc elasticity of demand is:

a) - 0.6

b) 0.067

c). -0.067

d) 0.6

1. If the cross price elasticity of food with respect to rail travel is negative, then food and rail travel are:

a) Inferior products

b) Substitute products

c) Inelastic products

d) Complementary products

1. The condition for profit maximization is:

a) marginal cost = average cost

b) marginal profit = marginal cost + marginal revenue

c) marginal revenue = marginal cost

d) marginal revenue = marginal profit – marginal cost

12 Economic profits and accounting profits differ in that:

a) Economic profits include opportunity cost, so that economic profits tend to be lower than accounting profits

b) Economic profits exclude opportunity cost, so that economic profits tend to be lower than accounting profits

c) Economic profits include opportunity cost, so that economic profits tend to be higher than accounting profits

d) Economic profits exclude opportunity cost, so that economic profits tend to be higher than accounting profits

1. When a firm experiences diseconomies of scale,

a) Average cost is declining, and marginal cost is greater than average cost

b) Average cost is declining, and marginal cost is less than average cost

c) Average cost is increasing, and marginal cost is greater than average cost

d) Average cost is increasing, and marginal cost is less than average cost

1. Sometimes firms, instead of maximizing profits, pursue:

a) Other financial objectives such as market share maximization

b) A combination of profits and social objectives

c) Social objectives only (social enterprises)

d) Any of the above

1. Under perfect competition, a firm:

a) Faces a horizontal demand curve and sells a homogeneous product

b) Faces a downward demand curve and sells a homogeneous product

c) Faces a horizontal demand curve and sells a heterogeneous product

d) Faces a downward demand curve and seels a heterogeneous product

1. Comparing short and long run profits for a perfectly competitive firm,

a) Profits can be positive or negative both in the short and long run.

b) Profits can be positive or negative in the short run, but will be zero in the long run.

c) Profits can be supernormal (or abonrmal) in the long run.

d) There is no generally valid statement that can be made about short and long run profits.

1. The UK Competition and Markets Authority is charged with investigating whether or not:

a) Monopolies abuse market power

b) Cartels operate in the public interest

c) Monopolies operate on the elastic segment of the demand curve

d) None of the above

1. A monopoly faces:

a) a horizontal demand curve with marginal revenue equal to average revenue

b) a horizontal demand curve with marginal revenue less than average revenue

c) a downward sloping demand curve with marginal revenue greater than average revenue

d) a downward sloping demand curve with marginal revenue less than average revenue

1. Which of the following is a characteristic of monopolistically competitive firms?

a) Firms face a horizontal demand curve

b) Firms usually produce homogeneous products

c) There are many firms in the industry

d) All of the above

1. In the prisoners’ dilemma,

a) Collusion is not the ideal outcome for firms

b) Collusion is achieved

c) Each firm has a dominant strategy to produce a small amount of output (which can be sold at a higher price)

d) Firms do not have an incentive to respect a potential collusive agreement

**Section B (70 marks)**

Please answer any **TWO** questions. If a question is made up of two parts (part a and part b), make sure that you answer both parts.

Question 1 (35 marks)

1. How is money defined and what are its different functions? (20 marks)
2. How does the Bank of England influence the money supply? In answering this question, discuss the money multiplier. (15 marks)

Question 2 (35 marks)

1. Define GDP and explain how it is calculated. How is GNP different from GDP, and how is real GDP different from nominal GDP? (15 marks)
2. What are the drawbacks of GDP as a measure of national well-being? (20 marks)

Question 3 (35 marks)

1. Define and explain the role of the multiplier within aggregate demand. How is it connected with the concept of injections and leakages (withdrawals)? (15 marks)
2. How does an increase in government spending affect aggregate demand? Refer to the multiplier in your answer (20 marks).

Question 4 (35 marks)

Define Brexit and evaluate the economic arguments for and against it. (30 marks)

In your opinion, is Brexit mainly driven by economic factors? (5 marks)