ST MARY’S UNIVERSITY

TWICKENHAM, LONDON

BA/BSc/BA (ITT)/BSc Degree Examination students registered for

Level **FIVE**

Title: **Business Economics**

Code: **MGT5022**

Semester: **Resit**

Date: **01 July 2019**

Time: **13:30-15:30pm**

TIME ALLOWED: **TWO** HOURS

Section A - Please answer **all** questions (30 marks)

Section B - Please answer **two** questions only (70 marks)

**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 Bank of England to manage interest rates

1. “*The Bank of England enjoys much credibility”.* This statement is an example of:

a) A normative statement

b) A universal statement

c) An economic principle

d) A positive statement

1. Opportunity costs 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) None of the above.

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

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

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

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

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

1. If chicken and turkey are substitute goods, then a decrease in the price of chicken, other things being constant, causes:

a) Turkey to become relatively less expensive than chicken

b) The quantity demanded of turkey to fall

c) Chicken to become relatively less expensive than turkey

d) None of the above

1. When a market is in equilibrium,

a) There is a shortage

b) There is a surplus

c) Price will change to clear the market

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 quantidy demanded due a 1% change in price

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

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

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

a) It should raise the price

b) It should lower the price

c It should keep its price constant

d) One cannot say, as information about costs is not given in the question

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) 0.067

b) 0.6

c). -0.067

d) - 0.6

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

a) Substitute products

b) Elastic products

c) Inelastic products

d) Complementary products

11. The condition for profit maximization is:

a) Marginal cost = average cost

b) Marginal revenue = marginal cost

c) Marginal revenue = average revenue

d) Average revenue = average cost

1. Economic profits and accounting profits differ in that:

a) Economic profits exclude 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 higher than accounting profits

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

d) Economic profits include 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 targets (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 takes price as given

b) Faces a downward demand curve and takes price as given

c) Faces a horizontal demand curve and does not take price as given

d) Faces a downward demand curve and does not take price as given

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

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

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

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

d) Profits will be zero both in the short and long run

1. The UK Competition and Markets Authority is charged with investigating all of the following except

a) Whether monopolies act against the public interest.

b) Whether trade barriers result in the loss of consumer welfare

c) Whether cartels are being operated

d) Wheter mergers can result in significant loss of competition

1. A monopoly faces:

a) A horizontal demand curve with marginal revenue greater than price

b) A horizontal demand curve with marginal revenue less than price

c) A downward sloping demand curve with marginal revenue greater than price

d) A downward sloping demand curve with marginal revenue less than price

1. Which of the following is not a characteristic of monopolistically competitive firms?

a) There are no barriers to entry

b) Firms face a horizontal demand curve

c) Firms produce differentiated products

d) Firms make zero profits

1. In the prisoners’ dilemma,each of the following is true except:

a) Collusion is the ideal outcome for firms

b) Collusion involves each firm restricting its output

c) Collusion is not achieved

d) Each firm has an incentive to respect a potential collusive agreement

**Section B (70 marks)**

Please answer any two questions only. 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 four functions? (20 marks)
2. How does the Bank of England influence the money supply? What does it mean that the Bank of England is the ‘lender of last resort’? (15 marks)

Question 2 (35 marks)

1. Define GDP and explain how it is calculated. How is nominal GDP different from real GDP, and which of the two is normally used to measure a country’s growth rate? (15 marks)
2. In your opinion, how good is GDP as a measure of national well-being? (20 marks)

Question 3 (35 marks)

1. Define and explain the role of the multiplier in determining aggregate demand (15 marks)
2. How does the government use fiscal policy to adjust aggregate demand? Use a diagram to support your answer. (20 marks)

Question 4 (35 marks)

Evaluate the economic arguments for and against Brexit. Which, if any, arguments do you find convincing, and why? On economic grounds, do you favour a ‘hard’ (no deal with the EU) or ‘soft’ Brexit, and why? (35 marks)

**END OF EXAMINATION**