ST MARY’S UNIVERSITY

TWICKENHAM, LONDON

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

Level **FIVE**

Title: **Business Economics**

Semester: **TWO**

Code: **MGT5022**

Time: **9:30 -11:30**

Date: **May 23rd 2019**

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, **ONE** of the options as the answer to each question.

1. If you are a macroeconomist, you might study
2. The extent of competition within an industry.
3. The effect of introducing a tax on cereal products containing added sugars on the purchasing decisions of consumers.
4. The effect of increased taxation on national income and the balance of payments.
5. None of the above.
6. *“Brand X cars ought to be taxed more than Brand Y cars”.* This statement is an example of
7. A normative statement.
8. A capitalist statement.
9. An economic principle.
10. A positive statement.
11. A mixed economy is best described by the statement:
12. In a mixed economy, society relies entirely on the private sector as a way of allocating resources.
13. In a mixed economy, the government alone decides on how resources are allocated.
14. In a mixed economy, the government and the private sectors interact in determining how resources are allocated.
15. In a mixed economy, workers and owners of capital interact in determining how resources are allocated.
16. The market demand curve for widgets will shift for all of the following reasons except:

a) The income of consumers changes.

b) Preferences of consumers change.

c) The number of consumers in the market for widgets changes.

d) The price of widgets changes.

1. If chicken and beef are substitute goods, then an increase in the price of chicken, other things being constant, causes:
2. Beef to become relatively more expensive than chicken.
3. Beef to become relatively less expensive than chicken.
4. The quantity demanded of beef to fall.
5. None of the above.
6. Farmers may be better off when there is a poor harvest because:
7. The demand for agricultural products is inelastic.
8. When demand is inelastic and supply decreases, the farmer's total revenue increases.
9. A small crop generates higher prices.
10. All of the above.
11. If a good is a luxury, its income elasticity of demand is:
12. Positive and less than 1.
13. Negative but greater than -1.
14. Positive and greater than 1.
15. Zero.
16. An increase in total consumer spending that results from an increase in the price of table salt suggests that the demand for salt is:
17. Inelastic.
18. Elastic.
19. Unit elastic.
20. Perfectly elastic.
21. A firm lowers price from £2 to £1 and so is able to raise its sold output from 100 units to 140 units. The arc elasticity of demand is:
22. 0.75.
23. -0.75.
24. -0.5.
25. None of the above.
26. If the cross price elasticity of food with respect to holiday travel is positive, then food and holiday travel are:

1. Substitute products.
2. Luxury products.
3. Inelastic products.
4. Complementary products.
5. When marginal revenue = marginal cost,
6. The firm breaks even.
7. The firm maximizes profits.
8. The firm maximizes revenues.
9. The firm minimizes costs.
10. As a result of firms facing opportunity costs,
11. Economic profits tend to be lower than accounting profits.
12. Economic profits tend to be greater than accounting profits.
13. Marginal cost tends to be lower than average cost.
14. Marginal cost tends to be greater than average cost.
15. The U-shaped long-run average cost curve shows:
16. The range of output over which a firm experiences increasing returns to scale.
17. The range of output over which the firm experiences constant returns to scale.
18. The range of output over which returns to scale are decreasing.
19. All of the above.
20. According to Adam Smith, the reason why manufacturers of pins were able to raise productivity was by:
21. Locating their factories close the the sources of inputs such as raw materials.
22. Assigning specific tasks to workers and inducing them to specialize in those tasks.
23. Offering wages that were proportional to the output that workers produced.
24. None of the above.
25. Which of the following is not a condition of perfect competition?
26. Firms sell a homogeneous product.
27. Firms face a downward sloping demand.
28. Firms can enter and exit a market freely.
29. Agents have full access to information.
30. As a result of free entry and exit of firms (into and out of a given market), in the long run:
31. Marginal cost is equal to marginal revenue.
32. Revenues are maximized.
33. Costs are minimized.
34. Profits are zero.
35. Which of the following is **false** about cartels?
36. They are forms of co-operation to limit competition.
37. The UK Competion and Markets authority will start an investigation when it suspects that a cartel is being operated.
38. They are legal at the national level but illegal at the international level.
39. None of the above.
40. A monopoly is able to make a supernormal profit:
41. Only in the short run.
42. Only in the long run.
43. Both in the short and long run.
44. Only when its product is homogeneous.
45. Suppose that in industry X, the four firm concentration ratio is 5. We can conclude that:

1. Industry X is competitive, so each firm exerts little, if any, influence on the overall market.
2. Each firm in the industry accounts for 5 per cent of total sales, so there are 20 firms in the industry.
3. Each firm in the industry can exert a substantial influence on the market.
4. There are strong barriers to entry into the industry.
5. Which of these is not a possible barrier to entry in protecting a monopoly?
6. Economies of scale.
7. Product differentiation.
8. High elasticity of demand for its product.
9. Access to channels of distribution.

**Section B (70 marks)**

Please answer any **TWO** questions only. If a question is made up of two parts (Part a plus Part b), make sure that you answer **BOTH** parts.

**Question 1 (35 marks):**

* 1. Describe the most common measures of money that are used. (15 marks)
  2. How do banks create money? In answering this question, pay specific attention to the money multiplier. (20 marks)

**Question 2 (35 marks)**

Describe the circular flow of income in an economy. In your answer, refer to the concept of injections and leakages (withdrawals). How does the presence of the international sector affect the circular flow of income? (35 marks)

**Question 3 (35 marks)**

1. Describe the concept of automatic stabilizers and comment on their usefulness. (15 marks)
2. How can the Bank of England use monetary policy to influence aggregate demand? (20 marks)

**Question 4 (35 marks)**

Describe the Single European Market. What is its economic justification? In your opinion, would the UK gain or lose by exiting the Single European Market? (35 marks)

**END OF EXAMINATION**