Questions & Answers

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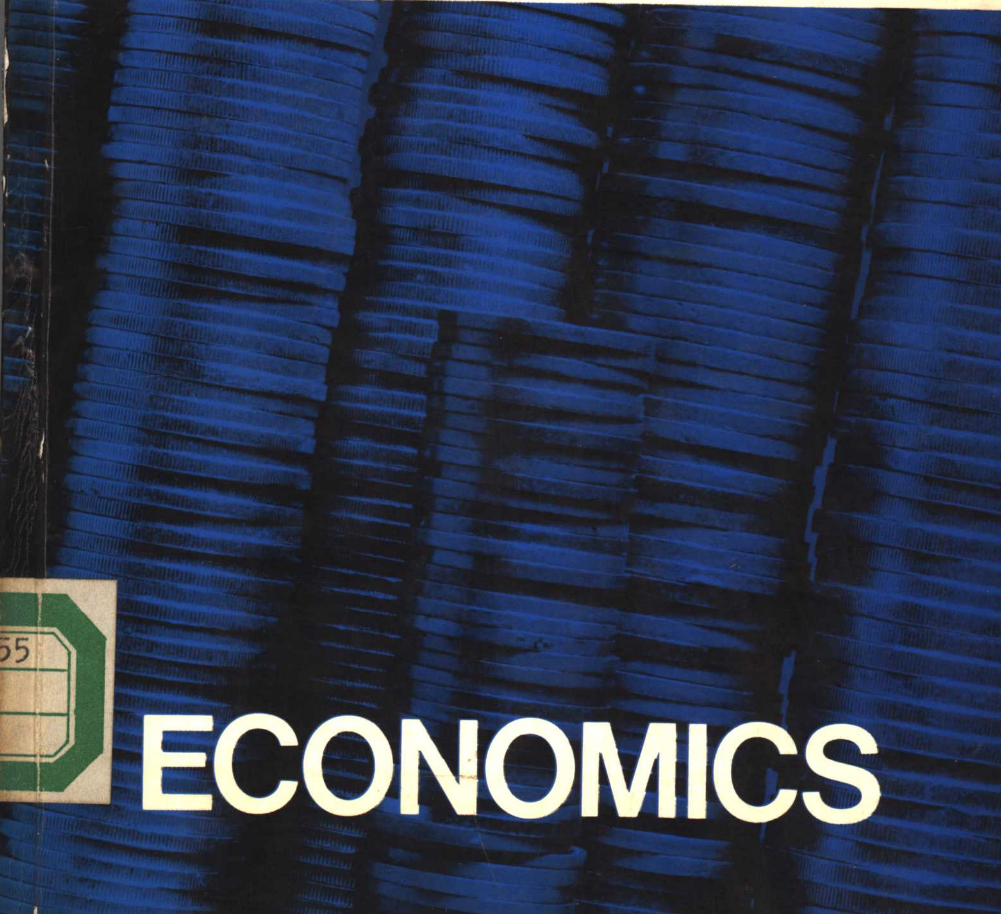

ECONOMICS

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A.G. Gully

Introduction

The purpose of this book is to help students who are studying economics. Almost all business studies and professional accountancy courses include economics as an examinable subject. Economic examinations at an intermediate level require an analytic as well as a descriptive approach to the subject. It is this analytic part that often causes great difficulty for students who attempt to learn rather than understand economics. The author, who is an experienced economics lecturer and examiner, has brought together a wide range of intermediate economics questions that will help the student test his/her knowledge of the subject. The answers have been skilfully written so the student can understand the requirements of the questions and provide some indication of the standard required to achieve high marks in the examination. A special appendix on numerical economic questions has been included because of the difficulty many students have in answering this type of question. Although a basic knowledge of economics is necessary the detailed answers ensure that students will be capable of understanding all the questions in this book. Most economics textbooks include questions but few provide the detailed answers that the student needs. This book provides economics students with a means of testing, assessing and improving their knowledge of economics in preparation for examinations.

How to use this book

This book has been written to help you with the essential practice of answering questions and checking the answer with a detailed model answer. Therefore as each section is covered in the teaching programme you can then turn to the relevant section in this book and practice answering questions. It is important not to look at the answer until the question has been attempted. Then compare your answer with the detail and layout of the model answer. Locate any mistakes you may have made and ensure that you understand why you were wrong. If you have made a lot of mistakes study the subject area carefully and try the questions again. Examinations consist of questions that have to be answered within a certain time allowance. Accordingly, you must time yourself when answering practice questions and get used to working quickly and neatly. Appendix I contains numerical economics questions and answers specially written for students who have difficulty with this aspect of the subject. Appendix II explains how to prepare for economics examinations and gives some hints that will help you succeed in the examination.

To
JONATHAN
and
TIMOTHY

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Question 1 **Demand** **Answer page 16**

Under what conditions will people buy more of a product the price of which has risen?

Question 2 **Supply** **Answer page 21**

What is the justification for drawing the supply curve of a commodity so as to suggest that larger quantities are offered for sale at higher prices?

Question 3 **Price Determination** **Answer page 22**

Given the hypothetical data below concerning the U.K. beef market per week in 1980:

a) Calculate the equilibrium price and quantity if the market only included the home demand. Explain your calculation.
b) Now take account of home and export demand to calculate the new equilibrium price and quantity. Explain your calculation and state the amount exported.
c) Discuss the effect of a fall in the price of other meat (for domestic consumption only) on the quantity of beef exported.

Price (p per lb)	Supply (lbs)	Home Demand (lbs)	Export demand (lbs)
60	160	260	110
80	180	230	90
100	200	200	70
120	220	170	50
140	240	140	30

Question 4 **Price Elasticity** **Answer page 23**

Examine from the point of view of revenue raised and impact on consumers and producers, the effect of imposing a tax on a commodity when demand for it is a) elastic, b) inelastic over the appropriate price range.

Question 5 **Price Controls** **Answer page 26**

What would you expect to be the economic consequences of a price system in which some prices were fixed by law and not by supply and demand in a free market?

Question 6 **Agricultural Policy** **Answer page 28**

Discuss the potential effects of government intervention in the agricultural sector to stabilize a) food prices, b) farmers' incomes, by the establishment of a buffer stock.

Question 7 **Business Organisation** **Answer page 31**

To what extent has the market economy given way to the corporate economy?

Question 8 **Sources of Finance** **Answer page 32**

What are the main sources of company finance? How are their relative costs affected by inflation?

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Question 10 **Location of Industry** **Answer page 36**

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Fixed costs do not arise in the long run and are irrelevant in the short run. Explain.

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How should a firm decide in what proportion to combine the factors of production it employs?

Question 13 **Returns to Scale/Factor** Answer page 40

Distinguish clearly between returns to scale and returns to a factor. What is the relationship between these returns and the firm's cost curves?

Question 14 **Investment Criteria** Answer page 42

A firm is considering the purchase of a new machine. Its initial cost is £1,000 and it is expected to earn a net return of £400 at the end of the next three years, after which it is to be scrapped at zero cost.

a) Advise the firm on the profitability of the project, if the cost of capital is 10%.
b) If the firm is taken over by a larger company with access to funds at 8% would your answer be affected?

Period (n)		0	1	2	3
Discount factor	r = 10%	1.0	.909	.826	.751
Discount factor	r = 8%	1.0	.926	.857	.794

Question 15 **Perfect Competition** Answer page 43

Examine the short and long-run consequences for the perfectly competitive firm and industry of imposing a lump-sum tax on each firm.

Question 16 **Imperfect Competition** **Answer page 45**

What economic factors influence the level of advertising expenditure and its influence in different markets?

Question 17 **Monopoly** **Answer page 47**

A monopolist has the following information available:

Price £	Output (units)	Total Cost £
10	10	170
9	20	190
8	30	215
7	40	250
6	50	300
5	60	370

Note - output is only produced in batches of 10 units.

As economic adviser to the monopolist you are required to determine:

i) the profit maximising level of output.
ii) the price elasticity of demand at this point.
iii) the output level at which price equals average cost.
iv) using your results to (i) and (iii) briefly indicate why monopoly is considered evil.

Question 18 **Price Discrimination** **Answer page 48**

Show that a monopolist may obtain higher profits if he can divide his customers into separate markets.

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Discuss the justification for the difference in emphasis in the U.K. between monopoly and merger policy on the one hand and restrictive trade practices on the other.

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'The aims of pricing policy in the Nationalised Industries should be that the consumer should pay the true costs of the goods and services he consumes.' Discuss.

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