

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
ACCOUNTANCY
SEMESTER 2 EXAMINATIONS 2018/19
PRINCIPLES OF ECONOMICS
MODULE NO: ACC4015

Date: Tuesday 21 May 2019

Time: 10.00 – 12.00

INSTRUCTIONS TO CANDIDATES:

This is a 2-hour closed book examination consisting of 2 Parts:

Part 1: Multiple Choice Test (30 Questions)

- Answer all 30 questions. All questions should be answered in the answer booklet. This part accounts for 30% of the total marks (30 Marks).

Part 2: Essays (2 Essays).

- Answer any two questions from the choice of four questions. This part accounts for 70% of the total marks (70 Marks).

You must hand in this exam paper with your answer booklet.

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Part 1. Multiple Choice (30 marks)

Attempt all 30 questions, selecting one answer for each.

Answer all questions in the answer book provided, noting the question number followed by the letter of the answer you have selected.

Important:

- Where two or more individual statements are correct in a particular question, select the statement which includes them.
- Marking: each correct answer receives one mark. Incorrect answers and unanswered questions receive zero marks.

Questions 1-30 are worth 1 mark each

1. The amount of resources in an economy:

- a. Are always fixed
- b. Can never decrease
- c. Always increase over time
- d. Are limited at any moment in time

2. Which of the following is a normative statement in economics?

- a. More spending by the government will reduce waiting times in the NHS
- b. Higher benefits will lead to less desire to work
- c. The German economy is growing fast relative to other European Union members
- d. The price of milk should be £1 a litre to give dairy farmers a higher living standard and to save the family farm.

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3. Suppose you buy Economics by Sloman. What is the opportunity cost of your purchase?
- The money you paid for the book.
 - Whatever you would have spent the money on if you had not bought the book.
 - The cost of producing the book.
 - The time you spend studying the book.
4. If an increase in the price of electricity leads to a decrease in the demand for electric clothes driers, then electricity and electric clothes driers are:
- substitutes
 - complements
5. The law of supply states that an increase in the price of a good:
- decreases the quantity demanded for that good
 - increases the quantity supplied of that good
 - decreases the quantity supplied of that good
6. Which of the following shifts the demand for iPads to the right?
- a decrease in the price of iPads
 - a decrease in consumer income
 - an increase in the price of iPads
 - an increase in consumer income

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7. If the price of a good is above the equilibrium price
- there is a surplus in supply and the price will fall
 - there is a surplus in supply and the price will rise
 - there is a shortage in supply and the price will fall
 - there is a shortage in supply and the price will rise
8. A good with a demand elasticity of -0.5 is said to have an
- elastic demand.
 - neither elastic nor inelastic demand.
 - inelastic demand.
 - reduced elasticity of demand.
 - None of the above.
9. Which one of the following conditions will increase the revenues of producers following an increase in price?
- If demand is elastic.
 - If supply is perfectly inelastic.
 - If demand is inelastic.
 - If supply is inelastic.
 - none of the above.

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10. If the price of a good is increased by 50% inducing a 20% fall in demand; we can say that the demand for the good is

- a. price inelastic.
- b. price elastic.
- c. perfectly price elastic.
- d. unitary price elastic.
- e. none of the above.

11. A bakery decides to raise the price of sausage rolls to increase the total revenue. This strategy will NOT work if the demand for sausage rolls is:

- a. Elastic
- b. Inelastic
- c. Perfectly elastic.
- d. Unit elastic
- e. Inversely related to price

12. People want to consume more goods and services than they currently consume. However, their consumption choices are limited by

- a. the person's income and the prices of goods.
- b. the marginal rate of substitution of the next unit.
- c. the person's preferences for goods and services.
- d. only prices and the person's preferences.

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13. In economics, consumers' preferences are graphically described by

- a. indifference curves.
- b. budget lines.
- c. relative prices.
- d. household income.

14. An indifference curve shows

- a. affordable combinations of goods.
- b. the opportunity cost of one good relative to another.
- c. consumption possibilities that a consumer faces at different prices and income.
- d. different combinations of two goods among which the consumer is indifferent.

15. Which of the following could be described as an agent in the principal agent problem

- a. Shareholders
- b. Manager
- c. Employers

16. Suppose that a firm produces 1,000,000 units a year and sells them all for £1 each. The explicit costs of production are £400,000 and the implicit costs of production are £300,000. The firm has an accounting profit of:

- a. £600,000 and an economic profit of £300,000
- b. £700,000 and an economic profit of £600,000.
- c. £300,000 and an economic profit of £300,000.

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17. The short run is a time period in which:
- all inputs are fixed.
 - the level of output is fixed.
 - the size of the factory is variable.
 - some inputs are fixed, and others are variable.
18. Variable costs are:
- sunk costs.
 - multiplied by fixed costs.
 - costs that change with the level of production
 - defined as the change in total cost resulting from the production of an additional unit of output.
19. Which is not a fixed cost?
- monthly rent of £1,000 contractually specified in a one-year lease
 - an insurance premium of £50 per year, paid last month
 - an attorney's retainer of £50,000 per year
 - a worker's wage of £15 per hour
20. In perfect competition, the marginal revenue of an individual firm
- equals the average revenue of the product.
 - exceeds the price of the product.
 - equals the price of the product.
 - both a and c

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21. A monopolistic firm maximises its profit by producing the output at which its marginal cost equals its

- a. average total cost.
- b. average cost.
- c. average variable cost.
- d. marginal revenue.

22. Based on the table which shows costs for making chairs

| Q | Total Cost |
|---|------------|
| 0 | £10 |
| 1 | £12 |
| 2 | £16 |
| 3 | £22 |
| 4 | £30 |
| 5 | £40 |

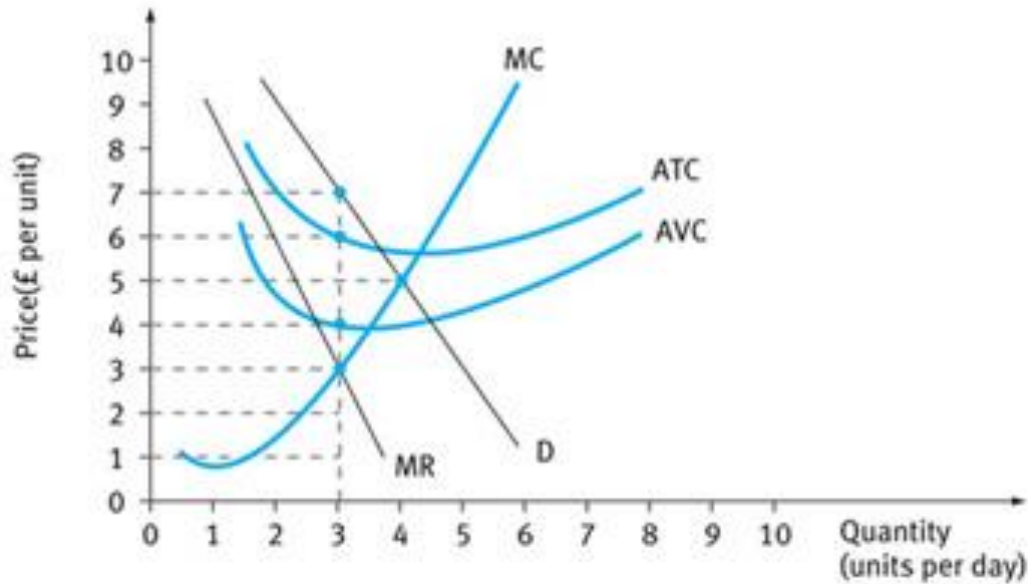
If a chair sells for £8, the profit-maximising output in a perfectly competitive market is

- a. one chair.
- b. two chairs.
- c. three chairs.
- d. four chairs.

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23. Refer to the figure below. What price will the monopolist charge in order to maximise profit?



- a. £7
- b. £3
- c. £5
- d. £10
- e. £4

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24. Which of the following is a characteristic of the market structure monopolistic competition?
- a. high barriers to entry.
 - b. a large number of firms compete.
 - c. each firm produces an identical product.
 - d. both answers b and c are correct.
25. In oligopolistic markets,
- a. all firms are price takers.
 - b. there are no barriers to entry.
 - c. A few large firms dominate the market
 - d. there are many firms.
26. The working-age population is defined as the number of
- a. people working in full-time jobs who are age 16-64.
 - b. people between the age of 16-64 who are economically active and inactive.
 - c. people who have a job.
 - d. people looking for work.
27. The duration of time spent by unemployed people looking for jobs
- a. falls during both recessions and expansions.
 - b. rises during both recessions and expansions.
 - c. falls during recessions and rises during expansions.
 - d. rises during recessions and falls during expansions.

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28. Frictional unemployment

- a. is voluntary part-time unemployment.
- b. is unemployment associated with declining industries.
- c. is unemployment associated with the changing of jobs in a changing economy.

29. The circular flow diagram shows

- a. the effects of inflation in a simple economy.
- b. how nominal GDP is distinct from real GDP.
- c. the flows between different sectors of the economy.
- d. how the prices of factors are determined.

30. Which trade theory holds that nations can increase their economic well-being by specialising in the production of goods they produce more efficiently than anyone else?

- a. The international product life cycle theory.
- b. The theory of comparative advantage.
- c. The factor endowment theory.
- d. The theory of absolute advantage.

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Part 2 Essays (70 Marks)

Answer any TWO questions from this selection:

Question 1

a) Explain why the income and substitution effects explain the law of demand.

(10 Marks)

b) Give three examples of demand shocks that would shift a demand curve to the left.

(10 Marks)

c) Draw a supply and demand graph (no need for specific numbers) to show the effects of the following on the demand and supply of potatoes.

(10 Marks)

Both effects should be shown on the same graph.

- A famous blogger promotes a recipe that involves lots of potatoes (Demand)
- A new technology is developed which makes producing potatoes more efficient (Supply)

d) Illustrate how the original equilibrium price and quantity change (i.e. increase, decrease or stay the same) following the effects illustrated in part c). **(5 Marks)**

Question 2

a) define monopoly in terms of the following categories:

(5 Marks)

- The number of firms in the industry
- The nature of the product
- How easy (or difficult) it is for new businesses to enter the industry

b) What is a natural monopoly? Give an example from the real world. **(10 Marks)**

c) What is a strategic/ legal monopoly? How might a strategic/ legal monopoly come about? **(10 Marks)**

d) Is Google a monopoly? Justify your answer.

(10 Marks)

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Question 3

- a) Define Gross Domestic Product **(5 Marks)**
- b) Define both the Expenditure and Income approaches to measuring GDP. How do they differ? **(20 Marks)**
- c) What is the difference between nominal and real GDP? **(10 Marks)**

Question 4

- a) Give an example of two “trading blocs”. Which groups of countries do each include and what benefits do they offer members? **(8 Marks)**
- b) Explain the “infant industry” argument in the context of trade. **(7 Marks)**
- c) What are the advantages and disadvantages of globalisation? **(10 Marks)**
- d) Give an example of a trade restriction. Explain how it may be implemented. **(10 Marks)**

END OF QUESTIONS