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| SUBJECT: | Economics |
| DATE: | 12 th December 2020 |
| TIME: | 9:00 a.m. to 12:05 p.m. |

The question in Section A is **compulsory**. In addition, answer **TWO** questions from Section B and **TWO** questions from Section C.

Section A carries a total of 20 marks, while Section B and Section C each carry a total of 40 marks.

SECTION A

This question is Compulsory and carries 20 marks.

1. Demand for hand sanitizer is surging around the globe as the new coronavirus spreads, prompting retailers to ration supplies and online vendors to hike prices.

Sales of hand sanitizers and similar products have swelled across several international markets since the COVID-19 outbreak began in January. The virus, which originated in China, has now spread to more than 60 countries.

According to data published Tuesday by market research firm Kantar, U.K. hand sanitizer sales saw a year-on-year increase of 255% in February. Meanwhile, British shoppers were buying 7% more liquid hand soaps and spent 10% more on household cleaners compared to February 2019.

Health experts have repeatedly urged the public to practice good hand hygiene since the coronavirus outbreak began. The World Health Organization advises washing hands "regularly and thoroughly" with soap and water or an alcohol-based hand rub if soap is not accessible.

(Source: Taylor, C. (2020). Sales of hand sanitizer are skyrocketing due to the coronavirus, leading to rationing and price hikes. [online] 3 March, CNBC. Available at: <https://www.cnbc.com/>)

- What is meant by 'demand for hand sanitizer' and the 'law of demand'? (4)
- The price of hand sanitizer increased. What is the likely factor to have caused the increase in the price? Explain why this happened using a demand and supply diagram. (10)
- What is meant by 'price elasticity of demand'? (2)
- Explain why the price elasticity of demand for hand sanitizer is likely to lie between 0 and -1. (4)

(Total: 20 marks)

Please turn the page.

SECTION B

Answer any TWO questions in detail. Each question carries 20 marks.

2. Imagine that a country could produce just two goods: consumer goods and capital goods. Assume that over a given time period the country could produce any of the combinations provided in Table 1.

Table 1: Production Possibility Frontier Schedule

| Point | Units of consumers goods | Units of capital goods |
|-------|--------------------------|------------------------|
| A | 24 | 0 |
| B | 23 | 1 |
| C | 21 | 2 |
| D | 18 | 3 |
| E | 14 | 4 |
| F | 8 | 5 |
| G | 0 | 6 |

- a. Draw the production possibility curve for this country and explain what the curve is showing. (6)
- b. What is the opportunity cost of producing one more unit of capital good if the current level of production is:
- i. 0 units;
 - ii. 3 units;
 - iii. 5 units?
- Show all your workings. (6)
- c. Suppose that the country is a mixed economy, blending elements of free market with state intervention. Discuss the rationale for government involvement in a mixed economy. (8)

(Total: 20 marks)

3. The following table relates the total output and the total costs of a firm:

Table 2: Output and Total Costs

| Output (units) | Total Cost (€) |
|----------------|----------------|
| 0 | 100 |
| 1 | 150 |
| 2 | 180 |
| 3 | 280 |
| 4 | 460 |

- a. From the above data, calculate:
- i. the average fixed cost at 1 unit of output;
 - ii. the average variable cost at 2 units of output;
 - iii. the marginal cost of the 3rd unit of output.
- Show all your workings. (6)
- b. Explain the law of variable proportions. How does the working of this law influence a firm's marginal cost? (6)
- c. By using examples, distinguish between internal and external economies of scale. (8)

(Total: 20 marks)

4. a. Explain 'cross-price elasticity of demand' and 'income elasticity of demand'. (6)
 b. Assume that the cross-elasticity of demand for lemonade with respect to sparkling water is 0.5. At an average price of €1 per bottle of lemonade, the number of bottles of lemonade sold per week is 1,000. If the average price per bottle of lemonade remains unchanged, but the price of sparkling water per bottle increases by 10%, by how much will the number of bottles of lemonade sold per week change? Explain your answer. (6)
 c. What are the main determinants of income elasticity of demand of a commodity? (8)
(Total: 20 marks)

5. a. Describe the characteristics of perfect competition. (6)
 b. Describe the characteristics of a monopoly. (6)
 c. Discuss the advantages and disadvantages of a monopoly. (8)
(Total: 20 marks)

SECTION C

Answer any TWO questions in detail. Each question carries 20 marks.

6. a. List **FOUR** macroeconomic objectives. (4)
 b. Explain 'equilibrium in the circular flow of income'. (10)
 c. What is the main indicator used to measure the level of economic activity? What are the **THREE** methods used to estimate it? (6)
(Total: 20 marks)

7. a. What is 'Marginal Efficiency of Capital'? (4)
 b. Using diagrams, explain how each of the following determinants affect investment:
 i. A decrease in interest rate;
 ii. A decrease in corporate tax;
 iii. A decrease in the level of business confidence. (10)
 c. By referring to the multiplier process, explain how an increase in investment increases output. (6)
(Total: 20 marks)

8. a. Define Aggregate Demand and Aggregate Supply and explain how to achieve equilibrium output. (6)
 b. Let's assume that the economy is in equilibrium. Using a diagram, explain what happens if the Aggregate Demand (AD) shifts inwards. Give **TWO** examples of factors causing an inward shift in the AD. (8)
 c. Explain why a shift in AD can lead to a persistent increase in price in the long run. (6)
(Total: 20 marks)

9. a. What are 'business cycles'? Explain how fiscal policies can be used to stabilise the business cycle. (8)
 b. Mention **THREE** causes of economic growth. (6)
 c. Is it true that economic growth is a sign of a higher standard of living? Discuss. (6)
(Total: 20 marks)