

COMMONWEALTH OF AUSTRALIA

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	Family Name	
	Given Names	
	Student Number	
	Teaching Period	Summer Semester, 2016
FINAL EXAMINATION	DURATION	
ECO504 – Business Economics	Reading Time:	10 minutes
	Writing Time:	180 minutes

INSTRUCTIONS TO CANDIDATES

The examination has **three** sections

Section A: Suggested Time: 30 mins	Multiple Choice Questions: Answer ALL 20 questions. Marks as indicated on paper
Section B: Suggested Time: 110 mins	Short Answer Questions: Answer ANY 4 questions out of 6 questions. Marks as indicated on paper.
Section C: Suggested Time: 40 mins	Essay Question: Answer 1 out of 2 questions. Marks as indicated on paper.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Any hard copy, unannotated English dictionary is permitted

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
No additional printed material is permitted	1 x 16 Page Book

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DOUBLE-SIDED.**

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Section A

Multiple Choice Questions

Total marks for this section: 20

Answer ***all*** questions

This section should be answered in the Answer Booklet provided (16 page booklet).

Each question is worth one mark.

Suggested time allocation: 30 mins.

Section B

Short Answer Questions

Total marks for this section: 20

Suggested time allocated for this section 110 minutes

Answer any 4 of the 6 Short Question

Question 1

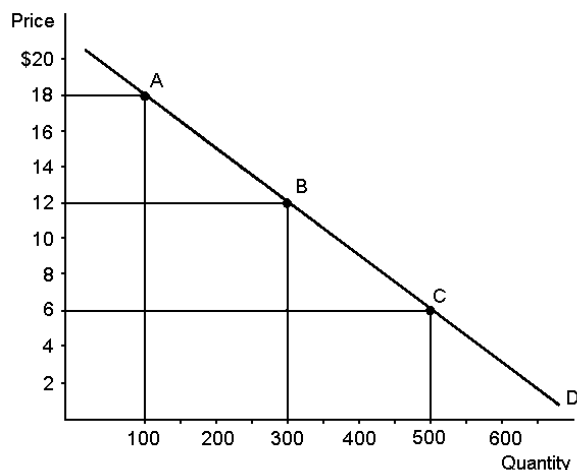
The market for ice-cream in Melbourne has the following demand and supply schedules.

<u>Price (\$)</u>	<u>Quantity Demanded</u>	<u>Quantity Supplied</u>
4	135	26
5	104	53
6	81	81
7	68	98
8	53	110
9	39	121

- (a) Based on the information presented in the table above, graph the demand and supply curves for ice-cream in Melbourne. What is the equilibrium price and quantity in this market? (3 Marks)
- (b) If the actual price in this market were above the equilibrium price, what would drive the market towards the equilibrium? (1 Mark)
- (c) If the actual price in this market were below equilibrium price, what would drive the market towards the equilibrium? Present your answer using appropriate graph(s). (1 Mark)

Question 2

- (a) Refer the graph below. Using the midpoint method, compute the elasticity of demand between points A and B. You must also show the formula for calculating the midpoint elasticity. Is this portion of the curve elastic or inelastic? (3 Marks)
- (b) Interpret your answer with regard to price and quantity demanded. (1 Mark)
- (c) Now compute the elasticity of demand between points B and C. Is this portion of the curve elastic or inelastic? (1 Mark)



Question 3

Explain how international trade has benefited billions of people, in terms of employment opportunities and improved living standards, globally in each of the following products/services.

- (a) Wheat.
- (b) Banking services.
- (c) Computer software.
- (d) Automobiles.

(5 Marks)

Question 4

Using an example and appropriate figure explain the concepts of consumer surplus, producer surplus and deadweight loss. How does deadweight loss arise? Discuss.

(5 Marks)

Question 5

Suppose that the Australian economy is in a long-run equilibrium:

- (a) Use a diagram to illustrate the state of the economy. Be sure to show aggregate demand, short-run aggregate supply and long-run aggregate supply. (3 Marks)

- (b) Now suppose that a financial crisis causes aggregate demand to fall. Use your diagram to show what happens to output and the price level in the short run. What happens to the unemployment rate? (1 Mark)

- (c) Use the sticky wage theory of aggregate supply to explain what will happen to output and the price level in the long run (assuming there is no change in policy). What role does the expected price level play in this adjustment? Be sure to illustrate your analysis with a graph. (1 Mark)

Question 6

- (a) Why do externalities occur and what are their sources? Discuss. (2 Marks)

- (b) Is it correct to say that negative externalities lead markets to produce a larger quantity than socially desirable level? Discuss. (3 Marks)

Section C

Essay Questions

Total No of Marks for this section: 10 marks

This section should be answered in the Answer Booklet provided.

Answer ANY one (1) of the two (2) essays (equal marks).

Suggested time allocation for this Section: 40 minutes

Question 1

A rapid growth in the Chinese economy until 2014 led to the mining boom in Australia, resulting in a significant increase in business investment and household consumption in the country (until 2014). However, since 2015 there has been a fall in government and private sector investment in the country. It is in this context explain:

- (a) The effects of mining boom and the recent down turn in the Australian economy on its aggregate demand. (5 marks)
- (b) Draw a graph to illustrate the effects of these events on aggregate demand, real GDP and the price level. (5 marks)

Question 2

- (a) Explain how unemployment is calculated and describe different types of unemployment. (5 Marks)
- (b) Why is there always going to be some amount of unemployment in the economy? (2 Marks)
- (c) What problems arise in interpreting the unemployment data? (3 Marks)

END OF EXAM