

## **WARNING**

This material has been reproduced and communicated to you by or on behalf of *Charles Darwin University* in accordance with section 113P of the *Copyright Act 1968 (Act)*.

The material in this communication may be subject to copyright under the Act.  
Any further reproduction or communication of this material by you may be the subject of copyright protection under the Act.

**Do not remove this notice**



Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2018				

<b>ECO501 – Economics for Managers</b>	<b>DURATION</b>	
	Reading Time:	<b>10 minutes</b>
	Writing Time:	<b>180 minutes</b>
<b>INSTRUCTIONS TO CANDIDATES</b>		
Section A: Multiple Choice Questions	Marks: 20	Time suggested: 50 minutes
Section B: Short Answer Questions	Marks: 20	Time suggested: 70 minutes
Section C: Essay Questions	Marks: 10	Time suggested: 60 minutes
<b>Total marks: 50</b>		
<b>EXAM CONDITIONS</b>		
<u>You may begin writing from the commencement of the examination session.</u> 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, English dictionary is permitted (annotated allowed)		
<b>ADDITIONAL AUTHORISED MATERIALS</b>	<b>EXAMINATION MATERIALS TO BE SUPPLIED</b>	
No additional printed material is permitted	1 x 16 Page Book 1 x 4-Multiple Choice Answer Sheet	

**THIS EXAMINATION IS PRINTED  
DOUBLE-SIDED.**

**THIS PAGE HAS BEEN INTENTIONALLY  
LEFT BLANK.**

## Section A

### Multiple Choice Questions

## Section B

### Short Answer Questions

Total marks for this section: 20

Suggested time allocation for this Section: 70 minutes

### Answer All Questions

---

#### Question 1

The market for ice-cream in Darwin 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 Darwin. What is the equilibrium price and quantity in this market?  
(1 marks)
- (b) Suppose that the price of frozen yoghurt falls. Explain how this price reduction in frozen yoghurt affects your demand for ice-cream. Present your answer using appropriate graph(s).  
(2 marks)

- (c) Suppose that during the summer, a bushfire destroys several ice-cream factories in Darwin. How does this event affect the market for ice-cream? Present your answer using appropriate graph(s). (2 marks)

## **Question 2**

An externality arises when a person engages in an activity that influences the wellbeing of a bystander but the person neither pays nor receives any compensation for the effect.

- (a) Give an example of a negative externality and positive externality. (2 marks)
- (b) Explain why market outcomes are inefficient in the presence of above mentioned negative and positive externalities. (2 marks)
- (c) What are Pigovian taxes? Why do economists prefer them to regulations as a way to protect the environment from pollution? (3 marks)

## **Question 3**

“Spring Fresh” has a monopoly on bottled water sales in Cairns.

- (a) Draw the demand, marginal revenue and marginal cost curves for “Spring Fresh”. Show the profit-maximising level of output and the profit-maximising price. (4 marks)
- (b) Redraw the diagram in part (a) and show the level of output that maximizes total surplus. Show the deadweight loss from the monopoly. Explain your answer. (4 marks)

## Section C

### Essay Questions

**Total No of Marks for this section: 10 marks**

This section should be answered in the Answer Booklet provided.

Suggested time allocation for this Section: 60 minutes

---

#### **Question 1**

The equilibrium output level is below the natural rate of output, and inflation currently sits below the RBA's target of 2-3% over the business cycle. We identify this as a recession which requires a boost in economic activities.

- (a) Explain what factors contribute aggregate demand and short-run aggregate supply curves to shift?  
(2 marks)
- (b) Explain the monetary policy intervention and fiscal policy intervention.  
(2 marks)
- (c) How can the fiscal policy be used to alleviate the recessionary condition in the economy.  
(2 marks)
- (d) What would the RBA's monetary policy response be to correct current recessionary economic condition in the country? Explain using an appropriate graph(s) with respect to money supply.  
(2 marks)
- (e) Explain, using appropriate graph(s) how this monetary policy intervention can bring the economy back to long-run equilibrium. (Hint: use Aggregate demand and aggregate supply model – with short-run and long-run aggregate supply curve to explain your answer)  
(2 marks)

**END OF EXAM**