

## **WARNING**

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

ECO504 – Business Economics	<b>DURATION</b>	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
<b>INSTRUCTIONS TO CANDIDATES</b>		
<b>Section A:</b> Suggested Time: 60 mins	<b>Multiple Choice Questions:</b> Answer ALL 40 questions. Marks as indicated on paper	
<b>Section B:</b> Suggested Time: 80 mins	<b>Short Answer Questions:</b> Answer ANY 4 questions out of 6 questions. Marks as indicated on paper.	
<b>Section C:</b> Suggested Time: 40 mins	<b>Short Essay Question:</b> Answer the 1 question. Marks as indicated on paper.	
<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, unannotated English dictionary is permitted		
<b>ADDITIONAL AUTHORISED MATERIALS</b>	<b>EXAMINATION MATERIALS TO BE SUPPLIED</b>	
None	1 x 16 Page Book 1 x Scrap Paper	

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## Section A

### Multiple Choice Questions

## Section B

### Short Answer Questions

**Total no. of marks for this section: 40**

Answer **any four** questions out of six questions

This section should be answered in the Answer Booklet provided. Each question is worth ten marks.  
Suggested time allocation for Section B: 80 minutes.

#### **Question 1**

Stan buys a 1989 Ford Capri with the intention of repairing, restoring and selling it. He anticipates that it will cost him \$20 000 to purchase, repair and restore the car, and that he can sell the finished car for \$26 000. When he has spent a total of \$10 000 on the project, he discovers that he needs to replace the engine. It will cost Stan \$8000 to replace the engine. If he replaces the engine he can sell the car for \$26 000. He can sell the car without the new engine for \$18000. What should he do?

**(10 marks)**

#### **Question 2**

All other things being equal, explain the effect of each of the following situations on demand and/or supply of wheat. Explain also what will be the effect on equilibrium price and quantity. Provide clearly labelled diagrams.

- wheat is now considered by doctors to be the least healthy vegetable
- there is an increase in the amount of land used to grow wheat
- producers expect the price of wheat to rise in the future
- the supply of corn, a substitute for wheat, increases
- wheat is a normal good and incomes increase

**(10 marks)**

#### **Question 3**

Using demand and supply diagrams, suggest policies that can reduce road congestion in Melbourne (hint: is congestion associated with a negative externality?).

**(10 marks)**

#### **Question 4**

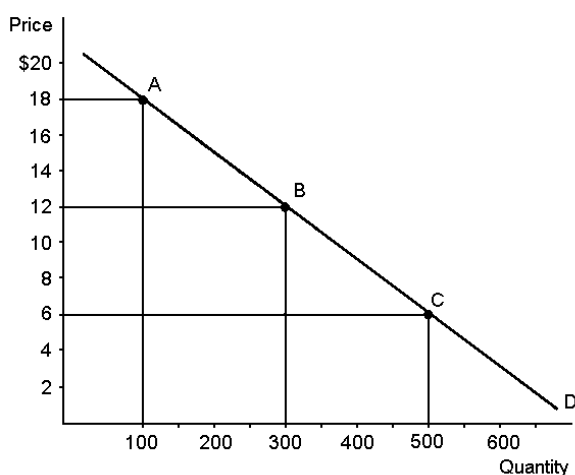
How do the following events impact aggregate demand, aggregate supply and long run aggregate supply?

- a. The government refurbishes school buildings.
- b. OPEC decreases oil supplies.
- c. The government decreases unemployment benefits.
- d. RBA increases the money supply.
- e. Decreased pineapple harvest in Queensland

**(10 marks)**

#### **Question 5**

Using the midpoint method, compute the elasticity of demand between points A and B. Is this portion of the curve elastic or inelastic? Interpret your answer with regard to price and quantity demanded. Now compute the elasticity of demand between points B and C. Is this portion of the curve elastic or inelastic?



**(10 marks)**

**Question 6**

Complete the following table.

Q	P	TR	TC	MR	MC	TFC	TVC	AFC	AVC	ATC	AC
0	20		18								
1	20		25								
2	20		30								
3	20		36								
4	20		44								
5	20		54								
6	20		66								
7	20		80								
8	20		95								
9	20		115								

**(10 marks)**

**Section C**  
**Short Essay Questions**

**Total No of Marks for this section: 20 marks**

This section should be answered in the Answer Booklet provided. Suggested time allocation for Section C: 40 minutes

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**Question 1**

Imagine the Australian government reduces Australian income tax rates.

Explain, with the aid of AD-AS curves, the expected impact on the Australian economy in the:

- a) Short run
- b) Long run

**(20 marks)**