

## **WARNING**

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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 2, 2018				

ECO105 – Business Economics	<b>DURATION</b>	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
<b>INSTRUCTIONS TO CANDIDATES</b>		
<b>Section A:</b> Suggested Time: 80 mins	<b>Multiple Choice Questions:</b> Answer ALL 40 questions. Marks as indicated on paper (Total marks=40)	
<b>Section B:</b> Suggested Time: 60 mins	<b>Short Answer Questions:</b> Answer ANY 4 questions out of 5 questions. Marks as indicated on paper. (Total marks=40)	
<b>Section C:</b> Suggested Time: 40 mins	<b>Short Essay Questions:</b> Answer 1 question. Marks as indicated on paper. (Total marks=20)	
<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>	
No additional printed material is permitted	1 x 16 Page Book 1 x Scrap Paper	

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## Section B

### Short Answer Questions

Total no. of marks for this section: 40

Answer **any four out of five** questions

This section should be answered in the Answer Booklet provided. Each question is worth ten marks. Suggested time allocation for Section B: 60 minutes.

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#### Question 1

Define supply and highlight its determinants. (10 marks)

#### Question 2

Consider the perfectly competitive market for canned tomato soup in Australia using supply and demand analysis. Explain the effect of each of the following with the help of a diagram on equilibrium price and quantity:

b) Drought in the tomato growing region of Australia. (2.5 marks)

c) An increase in the price of take away food from restaurants and cafes. (2.5 marks)

d) The classification of tomatoes as the healthiest vegetable by the Cancer Council. (2.5 marks)

d) A reduction in minimum wage. (2.5 marks)

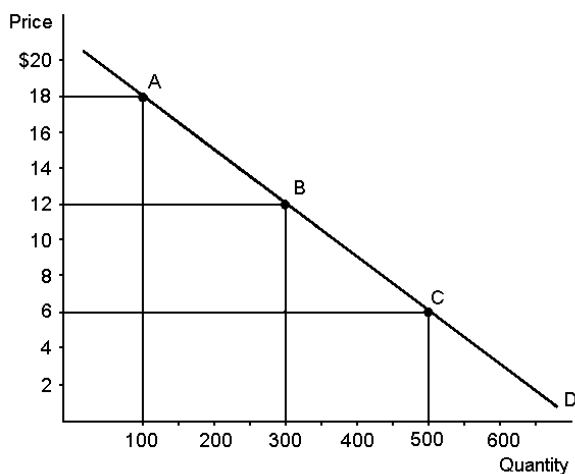
#### Question 3

i) Suppose a boom in stock market prices increases people's wealth. Using aggregate demand and aggregate supply analysis identify the curves that are affected and the way these curves would shift. Clearly explain the new short run equilibrium. (5 marks)

ii) What government policy can restore the economy to long run equilibrium? (5 marks)

#### Question 4

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 5

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)

**Section C**  
**Written Answer Long Questions**  
**Total no. of marks for this section: 20**  
Answer one question

This section should be answered in the Answer Booklet provided. Marks for each question are indicated.  
Suggested time allocation for Section C: 40 mins.

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**Question 1**

Imagine the Australian government reduces Australian income tax rates (hence workers pay lower taxes).

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)