

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER I EXAMINATION 2010/2011
PRINCIPLES OF ECONOMICS
MODULE NO: ACC 1011

Date: Wednesday 19th January 2011

Time: 2.00pm – 4.00pm

INSTRUCTIONS TO CANDIDATES:

PART I. MULTIPLE-CHOICE
1 hour

Answer ALL 30 Questions

PART II. ESSAYS 1 hour

There are **SIX** questions in Part II:
3 in Section A and 3 in Section B.

Answer **TWO** questions, one from
each Section. All questions carry
equal marks.

PART I accounts for 43% and
PART II for 57% of the final mark.

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PART II

Answer **TWO** questions, one from each Section.

SECTION A

1. The following table shows price and income elasticities of demand in the UK.

	Price <u>Elasticity</u>	Income <u>Elasticity</u>
Bread and cereals	-0.22	-0.50
Dairy produce	-0.05	0.53
Vegetables	-0.17	0.87
Wine and spirits	-1.20	2.60
Catering services	-2.61	1.64
Fuel and light	-0.47	0.30
Entertainment	-1.40	1.99

- i) For each good, explain whether it is a *normal* good (and whether a *luxury* or a *necessity*) or an *inferior good*, and whether demand is price elastic or inelastic.
- ii) How can this information be useful to the producers/providers of those goods, and to a government needing to raise taxation?
2. The Table below presents information for the UK, France and Germany about concentration ratios and scale economies in a number of industries.

Table. Concentration and scale economies

<i>Industry</i>	<u>UK</u>		<u>France</u>		<u>Germany</u>	
	CR	NP	CR	NP	CR	NP
Refrigerators	65	1	100	2	72	3
Cigarettes	94	3	100	2	94	3
Petroleum refining	79	8	60	7	47	9
Brewing	47	11	63	5	17	16
Fabrics	28	57	23	57	16	52
Shoes	17	165	13	128	20	197

CR = *3-firm concentration ratio*.

NP = *Number of plants at minimum efficient scale allowed by market size*.

Based on the information, analyse and compare the market structure of each industry in the three countries.

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3. Illustrate with the help of a diagram the market for a good in which there is a negative production externality. Identify in your diagram:
- (a) The quantity of the good that will be produced if the market is unregulated.
 - (b) The socially efficient quantity of the good.
 - (c) The level of tax on the good that would ensure that the socially efficient quantity is produced.

Consider some examples of situations in which this analysis might be relevant. Briefly discuss the alternative ways in which the government could tackle a negative externality.

SECTION B

4. Explain the two following statements:
'Alternative ways of measuring GDP should give the same result in principle.'
'Real GDP remains the most commonly used measure of economic activity but is far from ideal.'
5. Analyse the components of Aggregate Demand in an "open economy" *and* the factors influencing each component.
6. Analyse, also with the help of diagrams, how a fall in the pound exchange rate may affect the UK trade balance and equilibrium level of income.

END OF QUESTIONS