



ICM

SEPTEMBER 2015

ECONOMICS FOR BUSINESS

Instructions to candidates:

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
 - b) Answer any FIVE questions
 - c) All questions carry equal marks. Marks for each question are shown in []
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- 1. Compare and contrast the price mechanism (free market economy) and the command economy as the means of dealing with the economic problem of resource allocation. [20]
 - 2. Explain, with business examples, the concepts of **economies of scale** and **diseconomies of scale**. [20]
 - 3.
 - a) Using a simple demand and supply diagram, explain what is meant by **equilibrium price**. [8]
 - b) Consider the reasons why the demand for a product might increase even though the price remains constant. [12]
 - 4.
 - a) State and explain what is meant by the market structure known as **oligopoly**. [5]
 - b) Discuss, in relation to oligopoly, the concepts of **price leadership**, **cartels** and the **kinked demand curve**. [15]
 - 5.
 - a) State and explain the FOUR functions of money. [10]
 - b) Indicate, with examples, what you understand by the term **financial intermediary** and discuss the main purposes of financial intermediation. [10]
 - 6.
 - a) State and briefly explain the FOUR main aims of macro-economic policy. [12]
 - b) Discuss, with examples, what you understand by the term **demand management policies**. [8]
 - 7.
 - a) Outline the principle of comparative advantage as it applies in international trade. [10]
 - b) Discuss reasons why a government might use protectionist measures such as tariffs and quotas. [10]
 - 8.
 - a) Define and give an example of a currency exchange rate. [4]
 - b) Briefly outline the differences between a fixed exchange rate and a floating exchange rate. [8]
 - c) Discuss the likely effects of a rise in the exchange rate on a nation's balance of payments on current account. [8]

