



MARCH 2016

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. a) Explain the main economic features of a free market economy. [10]  
b) Discuss the reasons why the state might interfere with the free market economy. [10]
  - 2. a) Using examples, explain what you understand by the concept of elasticity in economics. [8]  
b) Discuss why a business would like to know the price elasticity of demand and income elasticity of demand for its products. [12]
  - 3. a) Illustrate and describe, using the appropriate graph, the profit maximising point of a monopoly firm earning supernormal profit. [10]  
b) Discuss the main barriers to entry which can create and maintain monopoly power. [10]
  - 4. Discuss the nature of, and possible government response to, the following examples of market failure:  
a) Externalities [10]  
b) Merit goods and public goods [10]
  - 5. a) Outline the main functions of money. [8]  
b) Consider how a bank can 'create' money and explain the main limitations of this process. [12]
  - 6. a) Outline the main types of unemployment in a developed economy. [10]  
b) Discuss the ways in which a government might attempt to reduce the level of unemployment. [10]
  - 7. a) Outline the main functions of taxation in a developed economy. [10]  
b) Analyse to what extent direct taxes carry out these functions effectively. [10]
  - 8. a) Discuss why a government might try to reduce imports into its economy. [8]  
b) Outline THREE means by which a government may reduce imports. [12]